

A Political Economy Analysis of the Budgetary process in Trinidad and Tobago

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Abstract

Understanding the budgetary process in Trinidad & Tobago is an important ingredient into improving fiscal outcomes and, by extension, contributing to growth and development. This paper is an attempt at a political economy analysis of that process: the authors seek to describe the institutional framework that regulates the budgetary process in its four stages: preparation, approval, execution and control. They identify the agents involved in the determination of government revenue and expenditure, the incentives they respond to, and the institutions that shape their interaction. The paper concludes with recommendations for improving efficiency and transparency in the budgetary process.

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1. Introduction

This study takes inspiration from the notion of Public Expenditure Management (PEM), defined by Schick (1998) as the “allocation of public money through collective choice”; where governments must not only apply the right procedures but must also strive to achieve policy outcomes efficiently; and where a poorly structured and managed public sector together with the political incentives of policy makers and public managers cannot produce optimal results. Schick identifies three criteria that good PEM should satisfy: Aggregate Fiscal Discipline (budget totals should not be set to accommodate spending demands but be the result of prudent decision making), Allocative Efficiency (expenditures should be prioritized) and Operational Efficiency (government agencies should produce goods and services at a cost that achieves ongoing efficiency gains and is competitive with market prices). In the Trinidad & Tobago context, guidelines are in place that may lead to the satisfaction of these criteria but the actual process is often at odds with the guidelines.

In more recent times, writers like Spiller et al (2003) and Spiller and Tommasi (2003) identify possible reasons for such divergences and consequent poor fiscal management: these are the principal-agent problem (elected representatives are not maximizing the welfare of their constituencies) and cooperation problems (the budgetary process is a game played by multiple agents each maximizing his/her own objectives). These writers contend that the political process and, by extension, national budgets are conditioned by the incentives and constraints facing the political agents which, in turn, are shaped by the country's political institutions. They propose a deeper, more country-specific approach to analyzing the effects of the budgetary process on fiscal outcomes.

PEM in Trinidad and Tobago is a challenge if only because the country's revenues are highly dependent on volatile oil and gas prices. In addition, the budget contains numerous transfers and entitlements, which impose great rigidity on public expenditure. Moreover, the non-energy sector of the economy is highly dependent on fiscal stimuli and government subsidies, including a petroleum subsidy which, in recent years, measures more than 50% of the budgetary deficit. A deeper understanding of the budgetary process in Trinidad and Tobago is critical to providing useful recommendations for improving PEM. This paper seeks to get a deeper understanding of that process using political economy analysis. In particular, it seeks to characterize the institutional framework that regulates budget preparation, approval, implementation and control.

Furthermore, it identifies the main agents involved both at each stage of the process, the incentives they face and the interactions among them. This study is to be used to determine the extent to which the current institutions of the budgetary process contribute to or mitigate the country's fiscal policy problems, and thus serve as a valuable input in the effort to improve fiscal institutions and outcomes. We focus our analysis mainly on the period 1990-2010.

2. Methodology and Data

The study is cast in a political economy analysis framework. The principal data are obtained by conducting interviews with key political players, including current and past Ministers and senior public servants and key politicians involved in the process. Supplemental sources include official documentation on the budgetary process as well as macroeconomic and energy data, obtained from official sources (Central Bank of Trinidad and Tobago, Central Statistical Office, Energy Intelligence Agency, others).

3. The Budgetary Framework in Trinidad and Tobago

Formal guidelines exist for the budgetary process in Trinidad & Tobago but there is as well an informal, unstructured framework that differs over time and according to the personalities involved. The formal framework for the budget, together with the informal influences and practices, provide the context for identification and analysis of the budgetary process and the impact of actors that participate and/or influence this process. The main elements of the formal framework, taken from the *Trinidad and Tobago Accounting Manual*, are provided in Appendix 1.

3.1. Preparation

The policy framework

Since the 1990s and probably before, annual budgets appear to be crafted within the framework of a documented national development policy plan. That framework varied over the last 20 years and was documented in successive three-year development operational plans. These three-year plans were rolled over and updated annually at the end of each fiscal year. In addition, over the period 2003-2005, budgets could reflect the development objectives of another policy document, the Social and Economic Policy Framework.

In 2002, a Committee was set up to develop a framework for Trinidad and Tobago to become a developed country by the year 2020. The resulting 'Vision 2020' report was finalized in

2005. This report sets out broad policy objectives and developmental goals based on which a shorter term three-year operational plan covering the period 2007-2010 was approved by the Government. This three-year operational plan informed budgets for the period 2007 to 2010.

In 2010 the newly elected Government adopted its election manifesto as the policy document and a Medium Term Policy Framework for the period 2011-14 was developed. This new policy document accordingly adopted the philosophy and initiatives of the election manifesto which were reflected in the 2010-2011 budget.

Preparation of the budget begins with the Minister of Finance declaring a 'fiscal stance', which is nothing more than a decision by the political administration about whether the annual budget would reflect a surplus, a deficit or be a balanced budget. The fiscal stance adopted by the Government is a key item of advice to the public servants in the Budgets Division in the process of prioritizing and rationalising the numerous budget requests in respect of both recurrent and capital expenditure. This is an informal, iterative process for which no procedures were cited, but the process seems to be guided by certain principles such as the degree of consistency with Government's economic or political objectives and focus, which currently includes energy investment, social welfare and education. The Government's targeted fiscal position along with revenue projections provides guidance as to the latitude that can attend discretionary expenditure of both a recurrent and capital nature. The fiscal stance may be indicated as a dollar value or referenced to an indicator, such as a percentage of GDP. Discussions are held between the Minister of Finance and senior officials of that Ministry as to the feasibility and budget implications of the Government's desired fiscal stance and a resolution is achieved that is acceptable to the Government as well as implementable given the revenue estimates. At the same time, the Ministry of Finance establishes various macroeconomic forecasts (to arrive at the aggregate revenue and expenditure figures) and to be used for setting budget priorities and investment programs.

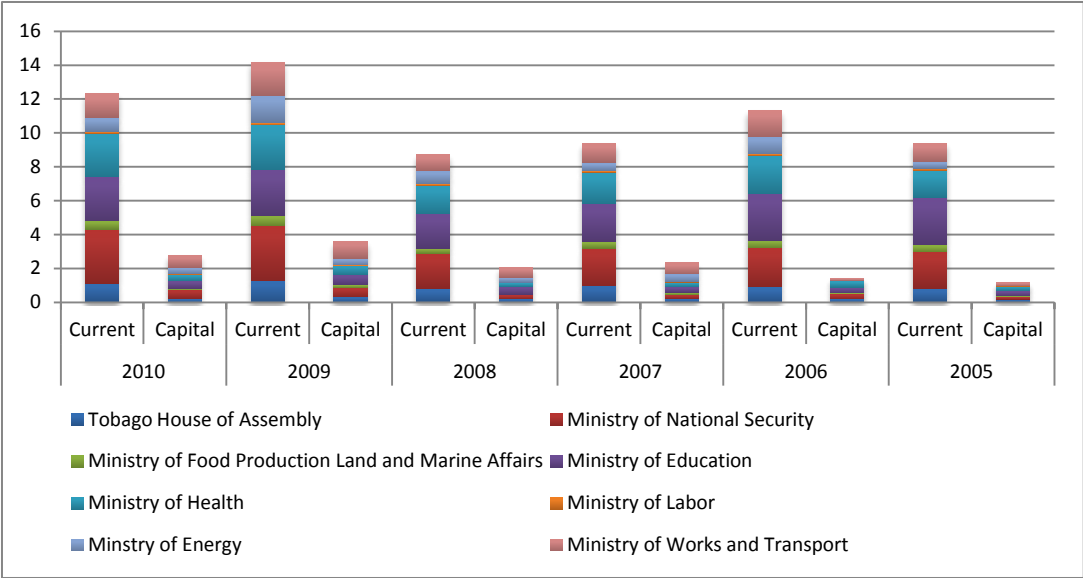
Expenditure Inputs

Under section 113(1) of the Constitution, the Minister of Finance is responsible for preparing the budget and he/she sets the process in motion by issuing a Call Circular, which is a request to Ministries, Departments and other Government agencies to submit draft estimates of their expected revenue and expenditure for the coming financial year to the Budget Division of the

Ministry of Finance. The Call Circular usually contains some quite general guidelines for the preparation of budgetary submissions but is never too specific. For instance, in the 2012 Call, attached as Appendix 2, a request is made that “every effort should be made to ensure that requests for resources are consistent with the seven interconnected pillars of sustainable development”, and the “pillars” are spelt out. But there is no specific constraint on the size of the allocation to be requested.

The Call is made within 4-5 months of the current budgetary cycle, or in February-March for the October-September financial year. By April 30th all Ministries and other Divisions must submit draft estimates in a prescribed format along with a Strategic Plan and a Customer Service Delivery Plan. Estimates are required to take into account the Government’s objectives stated in the prevailing Economic Policy Framework document along with the Strategic Plan of the particular Ministry or Division. It must be noted that documents such as these put forward the general plans and goals of the government in a broad manner and do not include specific objectives, targets or gross figures. Figure 1 shows the structure of expenditure (recurrent and capital) for eight (8) selected Ministries for the 2005-2010 period. The information in the figure shows that the structure of expenditure for the years 2005 and 2006 had a recurrent to capital expenditure ratio of approximately 7:1, and in later years a 4:1 ratio.

Figure 1: Structure of Expenditure for Selected Government Ministries – 2005-2010



The budgetary process is, ostensibly, a consultative one in which the various interest groups have an opportunity to submit proposals. Organizations representing private sector and civil society

interests, including business, NGO and other associations, are asked to submit budget proposals. If accepted, such submissions form part of the budgetary measures and often have expenditure or revenue implications. (Appendix 3 provides an example of such a submission). This is a semi-formal, perhaps even *ad hoc*, process, which is required more by custom than by law. The Ministry usually invites major umbrella organizations, especially those representing the interests of business and labour. Organizations, who may not be invited formally to submit, frequently make submissions which are taken into consideration. Ministry of Finance officials believe that submissions may be prepared even before they are requested, while some are submitted even if not requested. Ministry of Finance officials claim that unsolicited submissions are sometimes taken into account and that proposals made appear in the final budget. It is probably for this reason that there is no lack of submissions in any one year, even if there often are disappointments.

One example of a successful unsolicited submission resulted when the government proposed to introduce in 1995 what was called the 'premium tax'. It appeared that this tax was intended to be paid by the insurers. The insurance industry approached the government on the matter and a committee was set up with Ministry of Finance officials and the representatives of the Insurance industry to consider the industry's representations. The outcome was to amend the wording to make the tax an add-on tax to the policyholder. This did not impact the government's fiscal position but adjusted the apparent intended policy position.

All Ministries and state organizations making submissions for budget allocations meet with senior officials of the Ministry of Finance to discuss/defend their budget requests. Ministers may attend such meetings relative to their Ministry's proposals and may meet with senior Ministry of Finance officials and/or the Minister of Finance. This occurs from May to the middle of September. The Minister of Finance attends such meetings at his discretion as there are no formal protocols. Where the Prime Minister was also the Minister of Finance during 2002-2007, he attended committee and stakeholder meetings at the Ministry to discuss proposals submitted.

Representatives of the Ministry of Finance are also supposed to meet with the representatives of private sector and other non-governmental interest groups to discuss the budget suggestions they present. These stakeholders include the commercial and manufacturing business associations, banking and insurance industry associations, social and cultural organisations and other civil

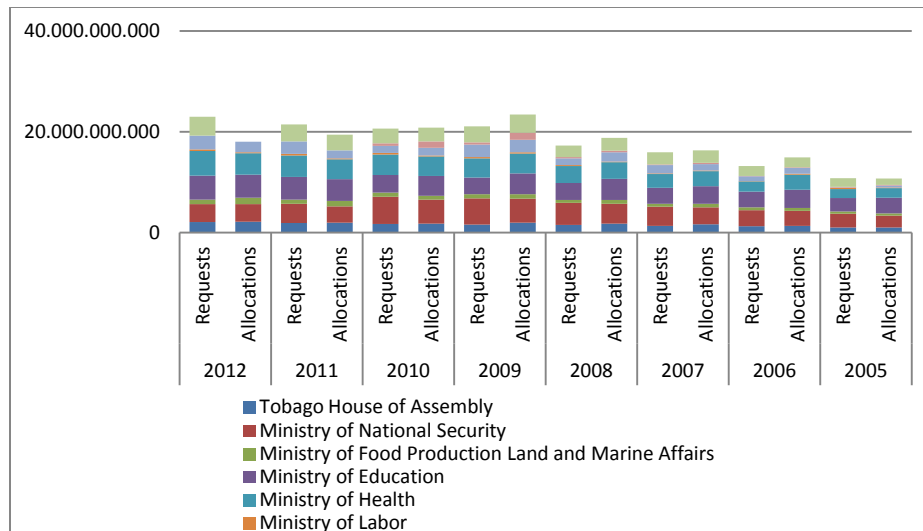
society groups. During the 2010 budgetary process the Ministry of Finance sought to engage a wider range of national interests in consultations on the appropriate budget priorities and configuration of budgetary measures. Technical committees are organized within the Ministry of Finance to review and make recommendations on the submissions from sources external to the Government. Within the last two years expertise from the wider society (including from the University of the West Indies) was incorporated into these in-house technical committees to enhance the quality of the deliberations on the issues to be considered.

The Tobago House of Assembly (THA) is a special case within the budgetary process. The 2000 report of the Dispute Resolution Commission (DRC), established under section 56 of the 1996 THA Act, concluded that the THA should receive between 4.03 and 6.9 % of total budget expenditure in the national budget. The THA develops and submits its budget proposals, which are considered by the Ministry of Finance, along with other requests but the final allocation is made to satisfy at least the minimum of 4.03%. Prior to submission to the Ministry of Finance, the budget of the THA has to be approved through a political process that involves debate and passage by a simple majority in the THA, which comprises members of the majority political party and opposition members. The majority party in the THA is not necessarily the majority party in the national government. The expenditure agenda of the THA is informed by the development needs of Tobago as identified from within Tobago and the current focus is on social infrastructure and continuing development of the tourist industry. The focus over time is largely determined by the priorities adopted by the prevailing THA administration.

Requests and submissions from political avenues such as constituency groups of the ruling party are directed through Ministers to Cabinet and, if approved, are considered by the Ministry of Finance along with all other Cabinet approved projects.

Allocations to Ministries usually fall short of requests made. Figure 2 shows the budgetary requests as well as the final allocations made to nine (9) selected Government Ministries for the 2005-2012 period.

Figure 2: Budgetary Requests and Allocations for Selected Ministries for the 2005-2012 period



Revenue Estimates

Responsibility for developing revenue estimates for the budget lies with the Ministry of Finance. The major sources of government revenue are income taxes, taxes on energy activity, value added tax, customs and other import duties. All receivers of revenue are required to submit revenue estimates to the Ministry of Finance for the budget period. The principal revenue estimates are received from the Board of Inland Revenue, the Customs Department and the Ministry of Energy. The latter submits projections of the price of natural gas and petroleum since these two commodities account for the bulk of government revenue.

Ministry of Finance officials, including the Minister at times, hold discussions with the Board of Inland Revenue, the Ministry of Energy and energy companies in deriving the revenue forecast. Revenue estimates are developed after consideration of all estimates submitted by revenue receivers. Consideration is also given to other supporting information, including international forecasts of oil and gas prices and reports from international agencies such as the World Bank and rating agencies. Projections about growth, inflation, employment, compensation trends and other projections for the national economy are additional considerations cited by those involved in the preparation of the budget. The Ministry arrives at revenue estimates, which are submitted for the Minister's approval. The Minister of Finance reviews the recommended estimates and supporting information and advises of his position, sometimes after referring to a ministerial or other committee for deliberations. The Minister approves the revenue estimates and the energy prices on which the budget will be based. There appears to be no

procedural rules specified in the formal process to determine the revenue estimates for the budget. The competence and area of professional expertise of the senior budget and other Ministry of Finance personnel as well as that of the Minister may impact the process used and accordingly the estimates produced.

Figure 3 suggests that, except for the 2007/2008 and 2009/2010 financial years, the actual revenues collected have generally been close to the estimates.

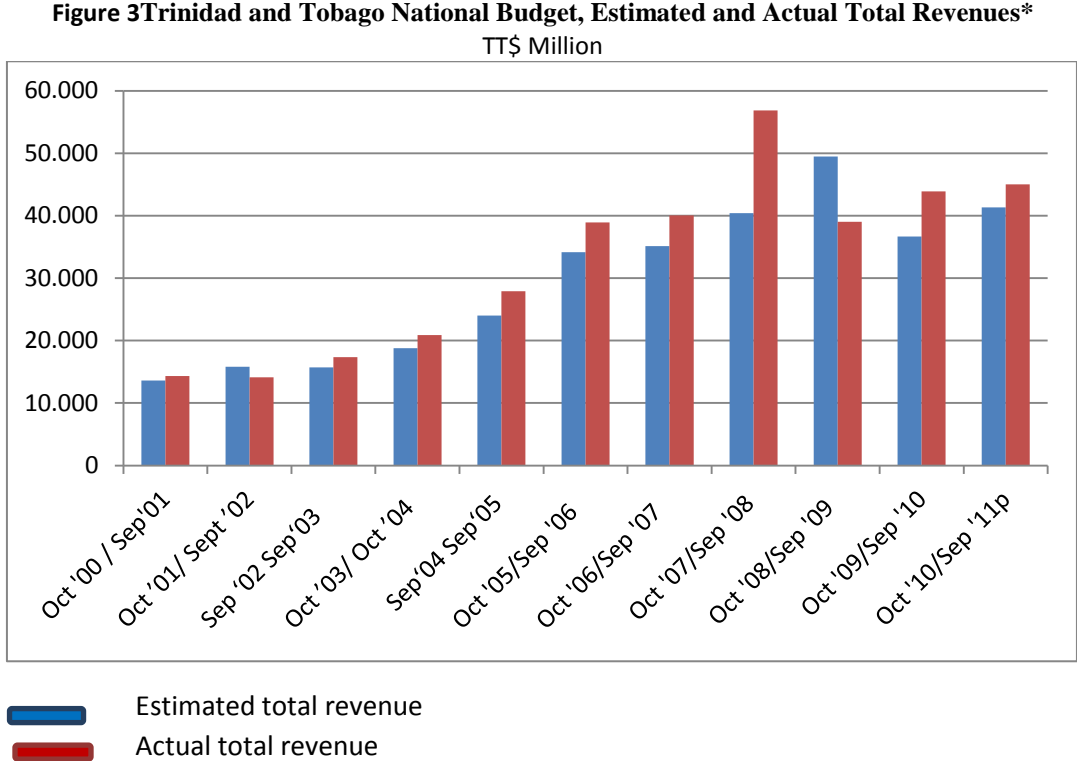
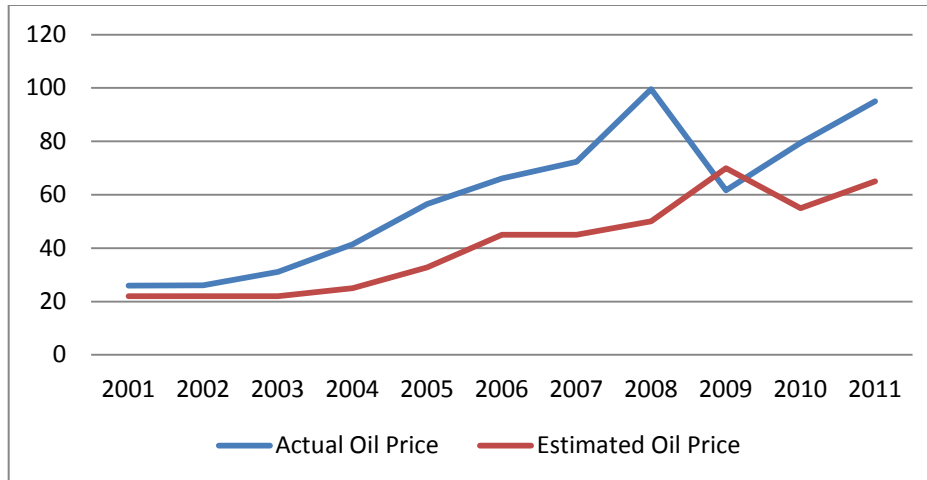


Figure 4 shows the oil price estimated for establishing the budget and the actual oil prices realized on an annual basis for the 2001-2011 period. Except for 2009 noticeably larger than the projected (on average, difference in prices was approximately US\$18.31).

Figure 4: Estimated and Actual Oil Prices – 2001-2011



Expenditure Rationalization

The major categories of expenditure are direct charges, recurrent expenditure (which includes both new and existing elements), capital expenditure and transfers to the Infrastructural Development Fund (IDF). Rationalization of expenditure requests and determination of allocation proposals for approval by the Minister and then the Cabinet is not governed by formal rules and is undertaken by the Ministry of Finance, led by the Budgets Division of that Ministry. This process is informed by the policy framework that guides the budgetary process.

Every proposal for which a Ministry seeks funding, including those submitted to line Ministers by State agencies, is normally approved by Cabinet before going to the Ministry of Finance. Exceptions occur since it is possible, within the informal process, for some expenditure proposals to get funding from state resources without being specifically requested in the budget proposals of an entity. For example in the case of some state agencies (e.g. the Trinidad & Tobago Securities and Exchange Commission) and state enterprises it is possible for budget allocations and releases to be reassigned within the organization to accommodate projects with costs that are not material relative to their total budget. Furthermore, due to the focus on disbursements and control of budget allocations rather than on achievement of results and performance effectiveness, the incidence and effectiveness of such actions may go undetected at the evaluation phase of the budget process, which is not extensive. Such occurrences are less likely within Ministries as the parameters of their operations are better known and understood by the Ministry of Finance and expenditure is governed by the accounting procedures of the public service. As an example, every instance of foreign travel by a Ministry employee has to be

approved by Cabinet, but this is not the case for employees of state agencies and enterprises. In some such cases, the line Minister approves the travelling for Directors only but the funding, in all cases, is approved by the entity itself out of its total budget. In other cases, the line Minister or the Ministry of Finance is not involved in the process for such expenditure: it is strictly an internal matter.

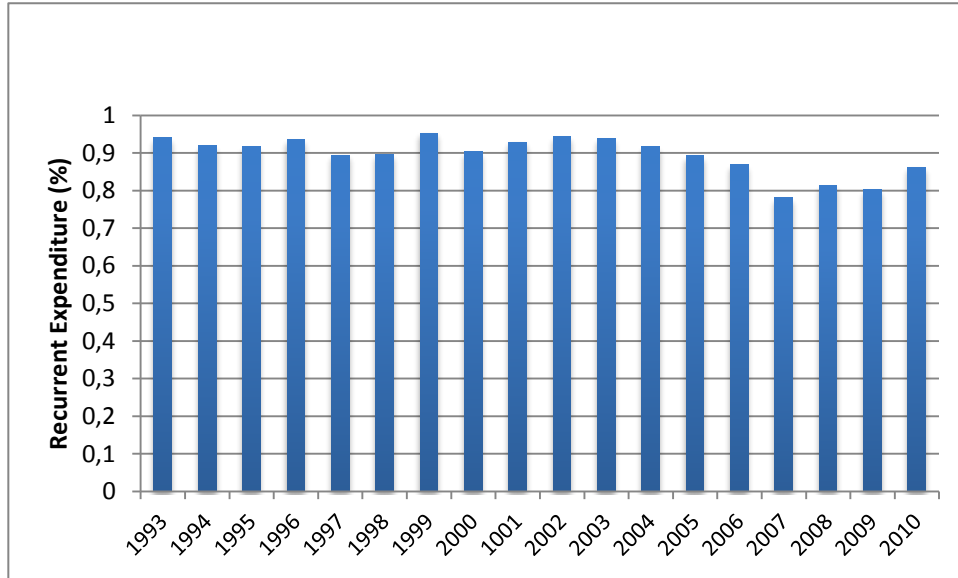
Cabinet approves such proposals subject to the availability of funding and only if they are in line with the broad policy objectives: it is the responsibility of the Minister of Finance to establish if funds are available. A copy of all Cabinet approvals with financial implications is sent to the Budgets Division in the Ministry of Finance. Such projects are generally included in the budget proposals of the respective Ministries for the next budget period. Where the projects are considered high priority by Cabinet, funding may be sourced and the project may be executed in the current year. The Budgets Division uses this information to be informed as to the allocation requests that will attend the budget and also obtain insight as to Government's expenditure thrust. Ministry of Finance officials who were interviewed, including the Permanent Secretary, the current and former Head of the Budgets Division, report that total funding for all proposals approved by Cabinet within a year generally exceeds the funding that is available so that many proposals remain unimplemented despite Cabinet approval. One of the interviewees, whose role in the budgetary process is primordial, was critical of this process of approval since it tended to result in a surfeit of approved projects, many of which never see the light of day.

The rationalization process first involves the identification of what may be described as 'inescapable' expenditure items. These include statutory obligations and direct charges such as loan payments, salaries of the military as well as those of judges and legal officers within the public service. Direct charges are not subject to any discretionary adjustments of the appropriation process. Other obligations such as payments in respect of international agreements and loan payments that do not fall under direct charges are also priority expenditure items for the budget.

Figure 5 shows that recurrent expenditure has ranged from 78 % to over 90% for the period 1993 to 2010. It is a large component of contractual obligations in the form of salaries and operational goods and services which constrains the flexibility of the budget. However, adjustments are possible particularly where new items of expenditure are proposed. In seeking to align budget

requests with available funding, Ministry of Finance officials who were interviewed, including the Permanent Secretary, the current and former Head of the Budgets Division, report that new items are likely to be cut first before adjusting the funding for existing recurrent items.

Figure 5: Recurrent Expenditure as a Percentage of Total Expenditure and Net Lending



After consideration of all statutory and other contractual funding obligations, the amount required for capital expenditure, or the Public Sector Investment Programme (PSIP), is assessed. The process for such assessment is not formalized and is currently undertaken in accordance with an internal process sanctioned by the Director of Budgets. The process ostensibly seeks to link the amount of the PSIP to the development goals identified in the policy framework. In the past, during periods of severely restricted revenues, the PSIP was determined as a residual after recurrent requirements. While the amount is determined in the Ministry of Finance, allocation of the PSIP budget to projects is now determined by the Ministry of Planning. Responsibility for determination, allocation and monitoring of the PSIP has been shifted over time between the Ministry of Finance and the Ministry of Planning and the Unit responsible for development and oversight of the PSIP has been moved back and forth between these two Ministries so that the same people perform the function but report to a different Minister. It has once again been moved from Finance to Planning.

Shifting the responsibility for the PSIP between the two Ministries is not without some negative consequences and, indeed, a former Minister of Finance does not favour the separation, as, in his

view, it results in an undesirable disconnect between the two categories of expenditure. Senior officials at the Ministry of Finance support this view: they believe that development of the recurrent expenditure and the capital expenditure budget subsets are closely related and oversight of the two should be integrated. A major justification for integration is that it helps the detection of requests for recurrent expenditure masquerading as capital expenditure, which Ministries sometimes resort to in an effort to ensure that the requested allocation is approved. With separate Ministries dealing separately with recurrent and capital items, reconciliation is compromised since the process of consultation across Ministries is informal and depends on the relationship between the parties in the two divisions (one in Finance for recurrent and another in Planning for capital items). The officials also point out the obvious fact that capital projects introduce increased future recurrent expenditure and so should be coordinated with recurrent expenditure planning.

In addition to the PSIP, budget allocations are made to the Infrastructure Development Fund (IDF). The IDF as constituted is not subject to the requirement that, at the end of the fiscal year, all unspent monies have to go back to the consolidated fund. This is convenient in cases where funding of a project goes beyond one year so that there is no need, in future years, to go through the annual budgetary process to obtain further allocations or reallocation of monies. The IDF was established and used by successive governments to allow for a buildup of funds to ensure completion of certain projects or provide supplemental funding for new priorities where expeditious implementation is desired.

There are no formal rules governing the type of projects that are covered under the IDF and those covered under the PSIP. The Permanent Secretaries, Directors of Budgets and Ministers interviewed all report a significant lack of clarity and formality regarding the IDF. No one was able to specify a process, procedure or rationale for the amount allocated to the IDF annually or how projects are selected for funding. The current Director of Budgets reported that, under former Prime Minister Patrick Manning, the Prime Minister himself determined this. All interviewees said the purpose of the IDF is to fund projects that span several budget years. They pointed out, however, that most projects fall into this category and specific selections for IDF funding therefore have to be made. A High Court Judgment concluded that:

"The IDF is a legitimate fund established under the provisions of the Exchequer and Audit Act. It is but one of the many funds established under the Act to which money from the Consolidated Fund is either charged or appropriated for the special purposes of those funds" (Laws of Trinidad and Tobago, Exchequer and Audit Act, Chapter 69:01 Section 43)

According to Section 43(1), the funds set out in the First Schedule shall be deemed to have been established in accordance with this section and the provisions of subsection (3) shall apply to receipts, earnings and accruals and to the balances of the funds. Section 43(3) states that "... unless the Treasury otherwise directs, and notwithstanding sections 13 and 42, neither the receipts, earnings, nor accruals of funds established or deemed to have been established in terms of this section, nor the balances of the funds at the close of each financial year, shall be paid into the Consolidated Fund, but shall be retained for the purposes of the funds".

According to the 'Draft Estimates of the Development Programme'¹, the Ministries of Housing, Works, Education, Energy and Finance generally received the largest allocations over the period 2008-2010 and the same obtained in 2011 except that the Ministry of Finance got no allocation and the allocation to Agriculture was substantially increased. Agencies such as the Estate Management and Business Development Company, the Cipriani Labour College and the Elections and Boundaries Commission have also received substantial allocations.

The Budgets Division collates all the requests and engages in an iterative process of successive prioritizing to arrive at an allocation strategy that meets the fiscal stance of the Government within the parameters of the revenue projections. The Director of Budgets and Permanent Secretary in the Ministry of Finance (himself a former Director of Budgets) report that, while recurrent expenditure in general may not be subject to many adjustments, the Budgets Division insists that recurrent expenditure items be scrutinized within the framework of a zero-based budgeting approach. New items of recurrent expenditure, they say, are likely to receive a lower priority for allocations than items that relate to continuing programmes, unless these new items relate to a policy initiative of the Government. New expenditure items that are less closely linked to the planning development goals are excised first. Existing programmes are then

¹ Republic of Trinidad and Tobago Draft Estimates of Development Programme for The Financial Year 2010-2011.

examined for possible cut or reduced allocations if this is needed to bring expenditure in line with the desired fiscal stance.

Political objectives bear some influence on which new or existing projects may be cut, reduced or increased. The personal influence of specific Ministers in the Cabinet may determine the extent to which his/her projects are adjusted by Ministry of Finance officials. Specific projects favoured by the Prime Minister or the Minister of Finance are unlikely to be excluded from the estimates without the prior agreement of these office holders; the Minister of Finance has to approve the draft budget and submit for Cabinet approval. Permanent Secretaries, senior Public Servants and even Ministers of Government (past and present) expressed the view that Ministers regarded as influential within the Government (due, for example, to being perceived as having the ear of the Prime Minister or significant political stock) were identified as being likely to influence some specific programmes that are approved in the final budget measures. Both the public service technocrats and the Cabinet may be inclined to support requests made by such persons and Ministers are inclined to seek the support of such persons before submitting their proposals to Cabinet.

The style, competence and areas of expertise of the senior technocrats, particularly the Permanent Secretary and the Director of Budgets, can also influence which projects are funded and to what extent. This is done both through revenue estimates recommendations and recommendations for discretionary expenditure configurations relative to relevant but low profile projects as they negotiate with the political administration on the priorities and constraints of the budget. Senior Public Servants and Government Ministers agreed that non-Cabinet Ministers had considerably less influence in determining of budgetary allocations. Such Ministers usually serve under a (senior) minister who is a member of Cabinet and who can negotiate directly with the Minister of Finance or at Cabinet level for the projects within the Ministry. Elected members of the ruling political party without ministerial portfolio were also not seen as having any influence on the budget inputs process, except through representations made to Cabinet members, including the Prime Minister.

2.2. Approval

All items of expenditure submitted for budget allocations must first be approved by Cabinet. Existing recurrent and capital expenditure items would have been approved in past years with

continuing funding in successive years in accordance with the details of the Cabinet approval. New projects approved by Cabinet within a given year are generally considered in the next year's budget proposals unless the Government directs that immediate funding is required, in which case funding has to be sourced within the current year's budget.

Special purpose inter-ministerial committees were formulated during the administration of 2002 to 2010 to develop and approve priority high-cost programmes and projects. The areas of focus included the purchase of military assets, divestment of Caroni (1975) Ltd (the state-owned sugar manufacturing company), energy projects and expenditure on public utilities. In addition, during this period, the Prime Minister established a Policy Formulation Committee, which he headed and which included the Ministers of Finance, Planning and Energy. This committee entertained, considered and approved submissions from Ministries, state enterprises and statutory bodies on new projects and programmes. Approvals of projects at the various inter-ministerial committees and the policy committee promoted easy passage in Cabinet as they would have received prior approval by various Ministers at the committee level. The policy committee also reviewed the draft budget and influenced the priority of projects for allocations.

The draft budget prepared by the Budget Division in collaboration with other units within the Ministry of Finance and, in some instances, the Ministry of Planning, has to be approved by the Minister of Finance. There are ongoing consultations during the process between the Minister and senior technocrats within the ministry, including Budget officials. Accordingly at the point of approving the draft budget, the Minister would be aware and would have considered the relevant supporting information and explanations that underpin the draft. Upon receiving the Minister's approval, the expenditure estimates are sent for Cabinet's approval, which is required by the Constitution. Cabinet discusses and makes any agreed adjustments. Such adjustments may reflect negotiation and compromise as Ministers seek to ensure that their major Ministerial objectives are accommodated in the budget. The estimates of expenditure may be referred for consideration to the Finance and General Purposes Committee of Cabinet, which they will consider and send back to Cabinet with any recommendations.

Further to Cabinet's approval of the estimates of expenditure, the specific budget measures and budget speech are prepared for delivery in Parliament. Under the Constitution, these measures are specifically required to be approved by Cabinet before being laid in Parliament. Cabinet

considers and approves the measures in a meeting which is generally held immediately before the budget is presented in Parliament so that the proposed budget is usually not altered to any significant extent. The budgetary measures are incorporated into an Appropriation Bill which details expenditure proposals under each head of expenditure, the total of which is the total expenditure appropriations for the next fiscal year. Direct charges to the consolidated funds are not included in the appropriation bill. Direct charges are items of expenditure which are charged to the consolidated fund but not required to be included in the Appropriation Act. This is provided for in the Constitution (Section 136). They are itemized in the draft estimates of expenditure and include debt servicing, salary and allowances of the President, the Judiciary including legal officers within Ministries, the Tax Appeal Board and the various Commissions (Teaching Service, Police, Elections and Boundaries, Equal Opportunity, etc.). The largest element of expenditure is debt servicing and the total estimate for 2011 /2012 is \$9.874 billion of which \$6.6 b relate to debt servicing. Total appropriations plus direct charges will constitute total budgeted expenditure for the year.

The budget is laid in Parliament as part of the Appropriation Bill and must be approved by Parliament in its entirety. Even off budget items from previous fiscal years must be incorporated into the figures of the current year and approved retroactively. Many such off budget items result from the operations of special purpose companies and state enterprises. The Appropriation Bill is presented in Parliament with a budget speech which outlines estimated revenue and expenditure and also provides details of the fiscal measures and Government's strategic goals which the appropriations are intended to achieve. The Finance Minister also lays at the same time supporting budget documents in Parliament. These are: Development Programs, Social Sector Programs, Public Sector Investment Programs (capital projects for each sector), a Review of the Trinidad and Tobago Economy (overview of economic performance for the past fiscal year) and a Provisional Collection of Taxes Order.

Trinidad and Tobago has a bicameral national Parliament system, which is similar to the British system of government. The Legislature comprises both Houses of Parliament. The House of Representatives currently consists of 41 members (39 for Trinidad and 2 for Tobago) while the Senate consists of 30 members (15 Government, 6 Opposition and 9 Independent). The Appropriation Bill is debated and passed in the House of Representatives by a simple majority. It then proceeds to the Senate where it is also debated and passed by a simple majority. Since the

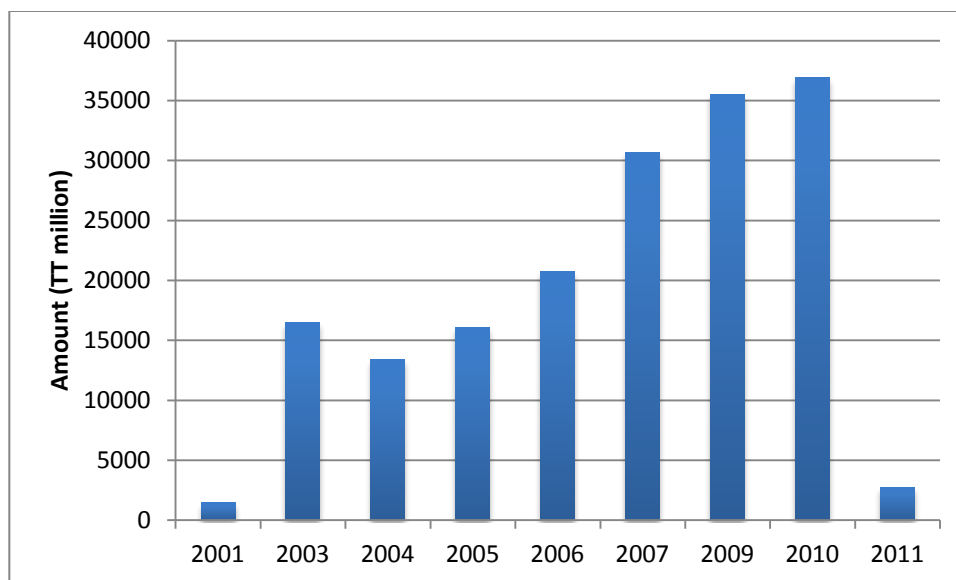
Government will usually command at least a simple majority in the House of Representatives, the budget is usually passed there. In the Senate, it would require the support of the Opposition and/or the Independent Senators. A situation in which the Government did not have a simple majority in the House of Representatives existed in 2002 (the House then consisted of 36 members with both the Government and the opposition commanding 18 seats each) and the Appropriation Bill could not be passed. Direct charges such as some debt obligations, however, could be met, as these were not required to be approved by an Appropriation Act.

No adjustments to the Appropriation Bill in Parliament have been identified over the period examined. Ministry of Finance officials advised that such an occurrence is seriously discouraged by the technocrats having regard to the significant administrative difficulties that would be involved in having all circulated documents reprinted and re-laid in Parliament and the attendant disruption in the Parliamentary approval process.

Following Parliamentary approval, the Appropriation Bill is forwarded to the President of Trinidad and Tobago for his assent. It then becomes the Appropriation Act for the particular year. The passage of the Bill enables payments from the Consolidated Fund. The budgetary measures such as changes to tax rates, fees and other items requiring amendments to legislation are required to be incorporated and passed in a Finance Act. Adjustments in existing taxes are given legal effect and are provisionally implemented by the issuance of a Provisional Collection of Taxes Order.

The Constitution provides that, where expenditure is found to vary from the allocations in the Appropriation Act, in circumstances such as when funds are expended or need to be expended on urgent items not provided for in the appropriations or increases are needed in the approved allocations, a supplemental Appropriation Bill must be passed in Parliament to approve the variations or new expenditure. Figure 6 shows the amount of funds approved through Appropriation Bills for selected years.

**Figure 6: Appropriation Bills for Variations or New Expenditure
(Selected Years)**



2.3. Implementation

The implementation of the budget is governed mainly by the Exchequer and Audit Act and the Financial Regulations and Financial Institutions 1965 Act. A General Warrant is issued by the Minister of Finance to the Comptroller of Accounts of the Ministry of Finance authorizing him/her to make the necessary withdrawals from the Consolidated Fund. Ministries and agencies that received allocations then apply to the Budget Division for the release of funds. Payments from the Consolidated Fund are made on a monthly or quarterly basis based on the monthly projections provided largely by the Economic Forecasting Unit of the Ministry of Finance and on the particular Ministry's or agency's performance in the previous quarter. In order to incur expenditure, Ministries and agencies must also apply for a Grant of Credit on the Exchequer Account to the Comptroller of Accounts. According to the Accounting Manual (reference), after checking the relevant documents the Comptroller may authorize and require the Auditor General to approve the application. Those interviewed were unable, or perhaps unwilling, to confirm whether these processes were independent, sequential or parallel.

The Accounting Unit within the Budget Division is responsible for processing the releases of funds to enable the issue of cheques by the Treasury division. The responsibilities of the Unit are: processing the request for the release of funds and granting of credit, the processing of payments, cheque preparation and filing of supporting documents and vouchers for payments made and credit granted (payment vouchers, schedule of accounts and vote books). Applications for release of funds are done on a quarterly basis. The Accounting Unit completes a spreadsheet

request by indicating the dollar value of releases that is required under each sub-item of expenditure. Justification for releases should be submitted along with the Request for Releases to the Budget Division. Where there are insufficient releases under a particular sub-item, releases may be transferred from one sub-item to another. The request for transfer of released funds must be submitted to the Budget Division for approval. While there is no limit to transfers requested by the line Minister, funds cannot be transferred between recurrent and capital expenditure. The Accounting Unit prepares an application for Credit on the Exchequer Account. Cheques are only processed after the batching of vouchers, data entry on the schedule of accounts, vouchers and complete verification of information.

The Auditor General ensures that the funds authorized are in accordance with the provisions of the Appropriation Act. The Accounting Unit oversees that all transactions are correctly processed, recorded and reported in accordance with the Financial Regulations and Financial Instructions 1965 Act and the instructions issued by the Comptroller of Accounts and Minister of Finance. The processing of all payments must be supported by source documents and are scrutinized by various levels of accounting officers who ensure that all requirements for accountability and transparency are met. Payment is authorized and a cheque issued only after all requirements are met.

2.4. Control

According to Section 116 of the Constitution, Ministries and departments must submit appropriation accounts to the Auditor General. This is the responsibility of the accounting officer(s) of the Ministry (the Permanent Secretary of each ministry is an accounting officer). These documents are required to be submitted within four months of the close of the financial year. Proper records of funds issued and spent are required to be maintained at all stages to ensure control and accountability of expenditure. Items kept for record include: vouchers, Schedule of Accounts, Vote Books, Expenditure Notification and Abstract of Payments. The Treasury Division is required to submit national accounts showing the financial position of the country as at September 30th to the Auditor General.

Receivers of revenue must account for revenue received and are required to submit statements of receipts and disbursements to the Auditor General. All revenue collected must be placed into the Exchequer Account, a bank account maintained at the Central Bank.

The Auditor General is responsible for auditing the national accounts in accordance with Section 25(1) of the Exchequer and Audit Act to ensure that expenditure was done according to the Appropriation Act. The Auditor General has the power to conduct annual audits and report on public accounts as well as State Enterprises. The Auditor General acts independently to allow for lack of bias. The Auditor General's Report outlines the weaknesses and shortcomings encountered during the audit of the accounts of the particular Ministry or division. The Appropriation Accounts and the Auditor General's Report are submitted to the Speaker of the House of Representatives, the President of the Senate and the Minister of Finance by April 30th. On receipt of such reports, the Speaker and the Senate President are to present the reports to the respective Houses of Parliament at the first sitting after having received the documents.

Section 119(4) of the Constitution provides a budget control role for Parliament through the Public Accounts Committee (PAC), which is chaired by a member of the Opposition and is the institution by which Parliament exercises its role in the oversight of public finance. The aim is to ascertain that moneys appropriated to individual Ministries and divisions are spent in accordance with the purpose for which they were approved by Parliament. The PAC is supposed to act as a control in that it holds the government accountable on how public finances are spent. The committee examines in detail the Auditor General's Report and the Appropriation Accounts. The Accounting Officers of each Ministry, department and agency are questioned by the committee on the management of the funds under their control and on the comments of the Auditor General's Report. The committee then submits a report on to the Parliament and it is debated. A major shortcoming is that the PAC receives accounts from the office of the Auditor General that are already dated, sometimes 3 (or more) years old. One of the interviewees commented that the PAC is not taken seriously and it is probably for this reason. The activities of the PAC are not directed by the Parliament and it is generally the backlog at the Auditor General's Office that causes the process to be dated.

4. Idiosyncrasies in the Budgetary Process in Trinidad & Tobago

There is often some discrepancy, sometimes major, between what is supposed to take place in the budgetary process and what actually happens. This seems to revolve largely around idiosyncrasies often associated with the role of individuals in the process whose personal objectives may be at odds with the stipulated guidelines: while these guidelines focus on prioritizing expenditure based on national development objectives and an established medium-

term policy framework, the main finding is that the budgetary outcome is highly dependent on the personalities, leadership style and technical capabilities of the persons involved, particularly the Minister of Finance, the Prime Minister, senior technocrats at the Ministry of Finance and, to a lesser extent, the Minister of Planning.

Ministers, other than the Minister of Finance, often play a determining role in the budgetary process, in particular the Prime Minister and the Minister of Planning. The Prime Minister's role and level of involvement in the process and capacity to implement his/her desired budget decisions depends on who the Prime Minister is: the role played by the Office of the Prime Minister depends greatly on the officeholder at the time. Some Prime Ministers, according to those interviewed, appear to be more interventionist than others and have, at times, assigned to themselves the portfolio of Minister of Finance (Patrick Manning is an example). Others tend to leave the task up to the Minister of Finance (Ministry of Finance officials identify Basdeo Panday and the current Prime Minister as being in this category). In the case of the Minister of Planning, that determining role is related to the part that Ministry plays in the PSIP: given that approximately 90 per cent of the budget is recurrent expenditure and therefore almost pre-determined, the PSIP is important in determining the final thrust of the budget. Furthermore, the PSIP comprises projects and programs that increase capital formation and contribute to diversification and competitiveness of the economy.

Several agents, identified formally as 'stakeholders' and as playing a key role, seem sometimes to have little influence on the budgetary process. Some sections of civil society are not adequately consulted during the preparation stage of the budget and play almost no role in the process. This is the usual case for developing countries (Schick 1998) and is not unique to Trinidad & Tobago. On the other hand, the Ministry of Finance and other officials interviewed readily agree that the business sector, which includes the Chamber of Commerce and the Trinidad and Tobago Manufacturers Association, is given more weight.

Ministries do not seem to base their requests on established guidelines when submitting estimates. Those interviewed agreed almost unanimously that, instead, Ministries submit, a "wish list" that is often unrealistic and not driven by a wider objective or the stated policy framework. Each Ministry seeks its own interest in trying to get as much as possible rather than submitting estimates that are in line with the Medium-Term Policy Framework. Each Ministry is, according

to the guidelines, expected to have its own strategic plan which is derived from the Medium-Term Policy Framework, yet there is little evidence from the interviews that estimates are based on the objectives stated in the Medium-Term Policy Framework and that there is a clear strategy for achieving such objectives. As was reported by many of the interviewees, the strategic plans appear to be simply documents sitting on a shelf and they do not drive budget estimates or the work at the Ministries. It appears as though the officials of the Ministries of Finance and of Planning have the task of sorting out which proposals are in keeping with the Medium Term Policy Framework and it is these that are ostensibly prioritized and recommended for funding.

Be that as it may, there is yet another obstacle: there seems to be a pecking order among the various Ministries and some appear to have a better chance of receiving their requested allocation based on their place in that order. For example, the Ministry of Agriculture is regarded as having less status than other Ministries such as the Ministry of Works, the Ministry of Health or the Ministry of Education. As a consequence, the requests of such a Ministry are either not reflected in the budget or, even if they are, the resources are not provided to implement the measures. A Minister at a more favoured Ministry appears to exercise more influence and indeed the assignment of Ministerial portfolios seems to be an indication of a person's relative importance and influence in the government. Other factors influencing a Ministry's ability to get the requested funding include the capacity and technical capabilities of the Ministry in implementing projects, although it may well be that the best talent is assigned to Ministries higher up in the pecking order.

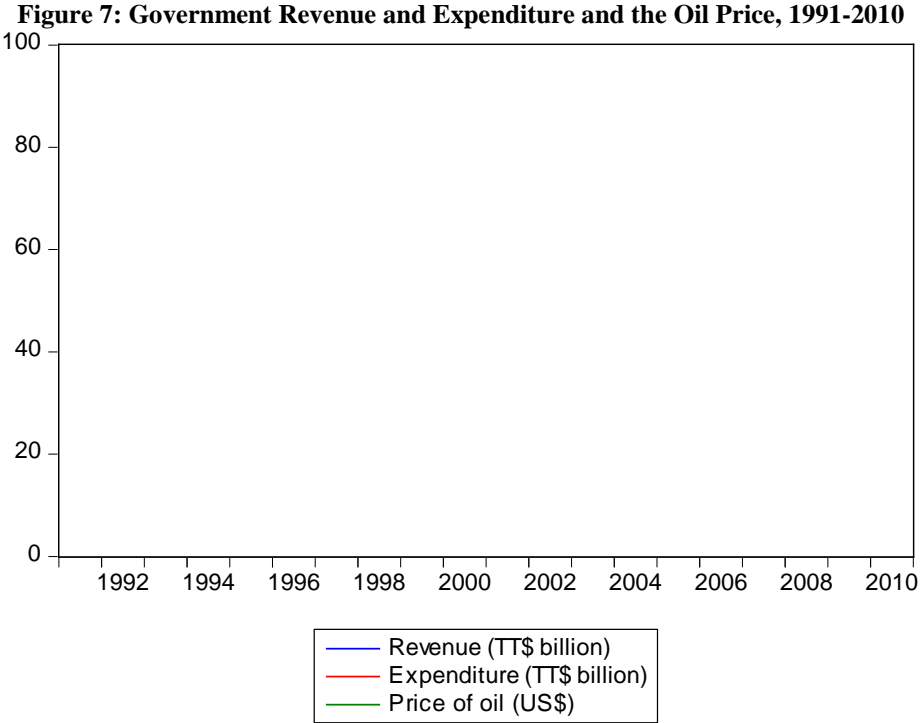
Many Ministers are as well elected representatives of a constituency and there is the temptation to use the budgetary process as a vote-buying mechanism in their respective constituencies. Information gained from the interviews undertaken indicate that Ministers attempt to get the maximum amount of resources possible for their constituency and their primary motive appears to be re-election, not the fulfillment of a national objective. A Minister of Finance may find himself under considerable pressure to submit to such demands especially as he, too, may not be indifferent to the re-election of his Ministerial colleagues and even his own re-election.

The actual budgetary process, in summary, seems to run counter to the Schick criteria. A major consequence is that, notwithstanding exaggerated demands for budgetary allocations, most ministries find difficulty in spending the (smaller) amounts allocated, especially those related to

capital expenditure. There is a rush, toward the end of the financial year, to spend the funds. One Minister blamed the process of drawdowns for this and remarked that hardly any spending takes place in the first 6 months or so of the financial year so that the planning for the coming year begins while implementation of these plans for the current year is not even started. He in fact suggested that the budgetary cycle should be longer than one year, probably two. The view that a longer cycle may be more appropriate is supported in the literature (Schiavo-Camps and Tommasi 1999).

5. The Budget and the wider economy in Trinidad and Tobago

Budgetary outcomes in Trinidad & Tobago are influenced not only by the budgetary process but also by prevailing economic conditions. It is probably true to say that these conditions are even more important than anything else. Figures 7, 8 and 9 show how closely revenue and expenditure are related to the oil price (West Texas Intermediate), the gas price (Henry hub) and Trinidad and Tobago’s GDP. Furthermore, figure 8 may even suggest that as GDP increases, the government is pressured into spending more.



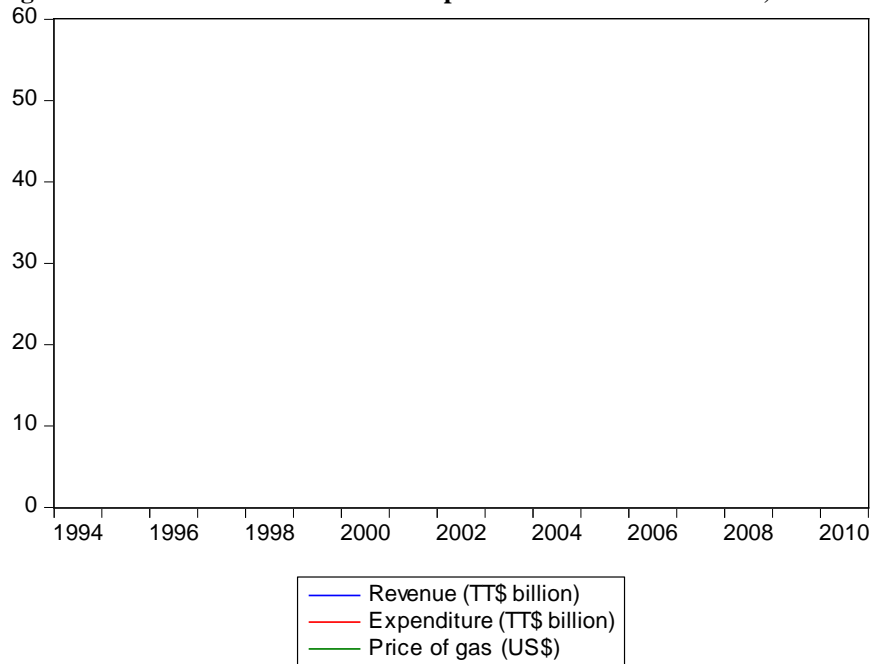
Source: Central Bank of Trinidad and Tobago and the Energy Information Administration (EIA).

The correlation coefficients are:

Oil Price and expenditure: 0.96

Oil price and revenue: 0.99

Figure 8: Government Revenue and Expenditure and the Gas Price, 1994-2010



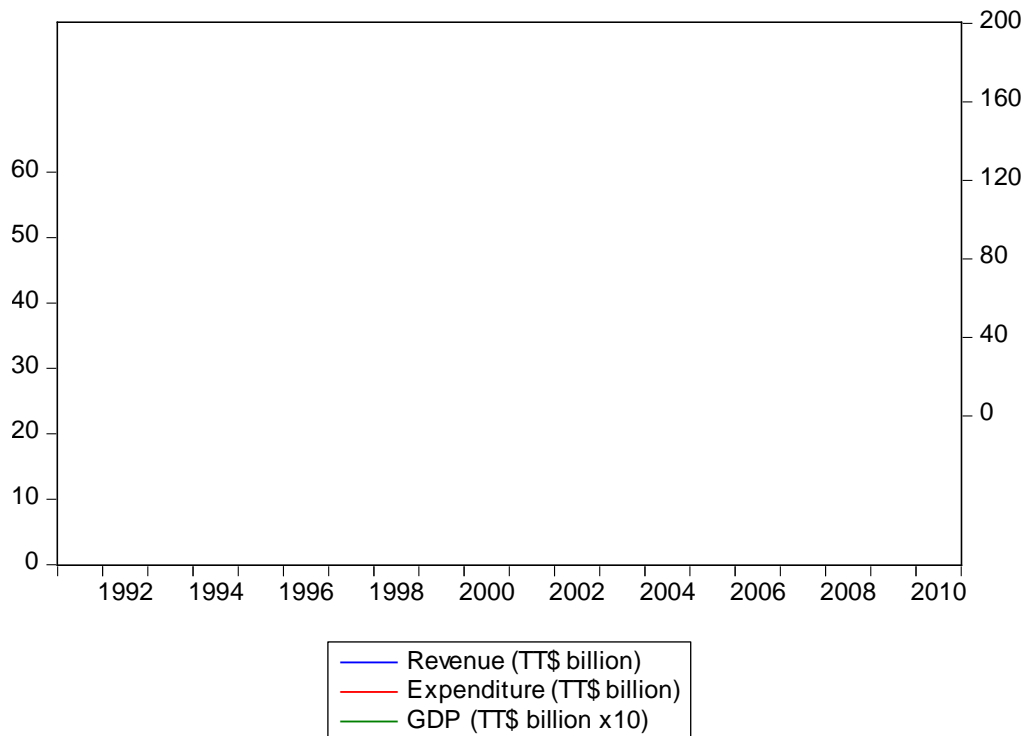
Source: Central Bank of Trinidad and Tobago and the Energy Information Administration (EIA).

The correlation coefficients are:

Gas Price and expenditure: 0.68

Gas price and revenue: 0.79

Figure 9: Government Revenue and Expenditure and the GDP, 1991-2010



Source: Central Bank of Trinidad and Tobago and the Energy Information Administration (EIA).

The correlation coefficients are:

GDP and expenditure: 0.98

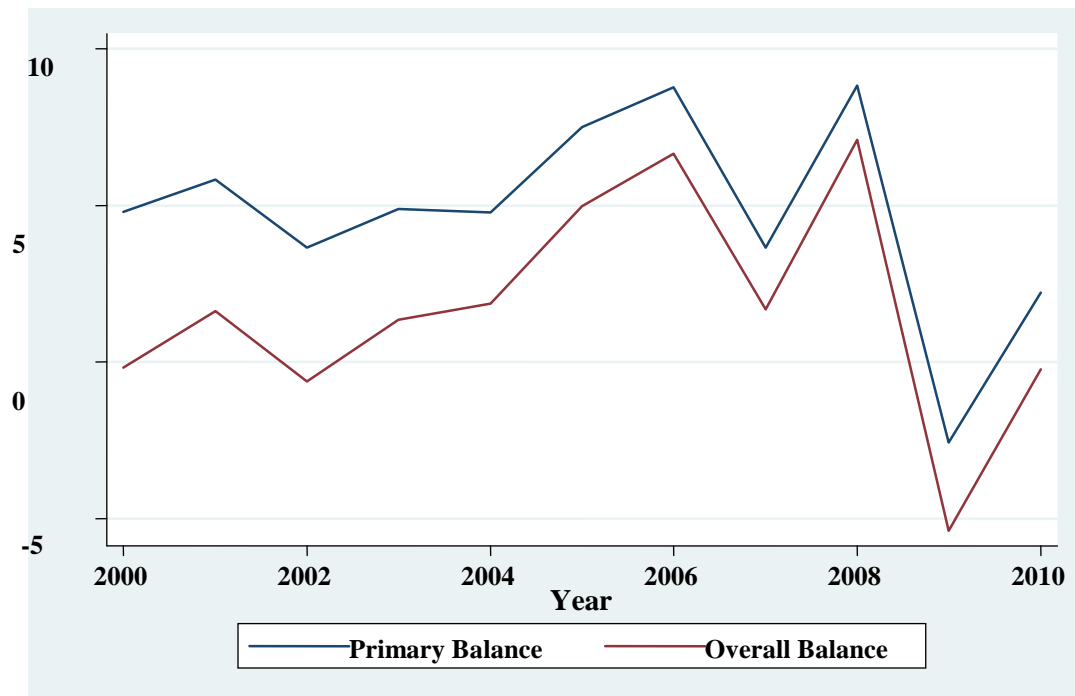
GDP and revenue: 0.99

GDP and oil price: 0.98

Figure 10 shows the primary and overall budget balance (as a % of GDP) over the period 2000 – 2010. The data indicates that Trinidad and Tobago ran a primary budget surplus for the entire decade, except for 2009. This is likely to be largely due to the strong economic growth that the country experienced during the period 1994-2007². Throughout the decade the primary balance averaged 4.76% of GDP, while the overall budget balance averaged 1.71% of GDP.

Figure 10: Primary and Overall Budget Balance (% of GDP), 2000-2010

² Economic growth averaged 7.7% during the period.



Data source: Central Bank of Trinidad and Tobago

5. Recommendations and Conclusion

The authors, in making the following six recommendations, are mindful that some may incur costs. There is the implicit understanding that the benefits to be accrued outweigh these costs.

Recommendation no. 1

Ministries should be provided with sectoral budget ceilings, the overall deficit target and expected resources at the time of the “Call” from the Ministry of Finance. The ceilings and targets should be justified on the basis of the Medium Term Planning Framework applicable at the time.

This is in keeping with the findings of the study as well as with the recommendation of Schiavo-Campo and Tommasi (1999) that the annual budget preparation should begin with a top-down approach, in which there should be a clear statement of the available resources so that every ministry has knowledge of established spending limits within the different sectors. This would encourage ministries to veer away from the existing ‘wish list’ approach to an approach where programs and projects are prioritized according to resource availability. It would avoid some of the faulty budgeting practices which occur at present, namely incremental budgeting, whereby

the Ministry of Finance appears to get involved in horse-trading with other Ministries without taking into consideration sectoral or national needs, and it would also avoid ‘open-ended’ processes, that is, requests made by a ministry without knowledge of financial constraints and fiscal targets. It may also ensure that spending of the appropriations begin in a timely manner.

Recommendation no. 2

The Government of Trinidad & Tobago should give serious consideration to having a biennial budget rather than the current annual budget.

This recommendation follows from the need to spend more time in implementing rather than simply preparing the budget. It usually takes about 3 months for the Appropriation Act to come into force and many ministries find grave difficulty in spending their capital budget during the 12-month period, which often results in a rush at the end of the period to spend the allocations.

Recommendation no. 3

More formality should be built into the process and a sub-committee of Cabinet should be appointed to ensure that there is little or no deviation from the established guidelines.

This is particularly applicable at the approval stage of the budget as there appears to be no formal practice which is consistently followed. Attention should be paid to delineating the roles and responsibilities of the various budgetary officials and committees involved in the process. This would permit effective budget decision-making at all levels of the approval process. Further, these committees should not function in a fragmented manner, but there should be effective coordination among the committees during the entire process.

Recommendation no. 4

The Ministry of Planning should engage in continuous research that feeds into the medium term plans and the PSIP should be aligned to those plans. That Ministry should therefore have a strong research capability and should be doing critical reviews of problems.

It is not acceptable that this role receives the appropriate attention only where the Minister of Planning and/or the Permanent Secretary has the expertise and leadership qualities to identify and promote this activity.

Recommendation no. 5

Ministries must account for the use of funds with greater regularity and punctuality.

While there are systems in place to ensure control and accountability of budget spending, information at the control stage indicate that Appropriation Accounts are submitted four months before the end of the financial year. Application of this recommendation would assist in circumventing or detecting any improper use of funds and ensure that the expenditures taking place are executing budgetary measures and policy decisions efficiently and if not, it would allow measures to be put in place at the early stages of the implementation process. Timely submission of Appropriation Accounts would ensure that information is collected about the operation of programs which can then be employed to inform future budgets. This measure would also assist with future policy decisions, program planning and budgets.

Recommendation no. 6

The office of the Auditor General must report on the budgetary process within four months of the end of the financial year.

It is unacceptable to have reports from the office of the Auditor General appearing 3-4 years after the exercise is complete. This prohibits timely follow up and allows for bad practices to become entrenched. It also renders ineffective the role and function of the Public Accounts Committee.

6. References

Schiavo-Campo, S. and D. Tommasi. 1999. *Managing Government Expenditure*. Manila, Philippines. Asian Development Bank.

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APPENDICES

Appendix 1

The Budgetary Process according to the *Trinidad and Tobago Accounting Manual*

The *Trinidad and Tobago Accounting Manual*, prepared by the Treasury Division of the Ministry of Finance, the *Constitution of Trinidad and Tobago* and the *Exchequer and Audit Act* are the main documentary sources of information on the formal process for development, approval, execution and control of the budgetary process. The information about what is called in this paper the informal processes comes mainly from interviews conducted with key public servants and politicians but also from secondary sources such as budget reports.

The budgetary process may be broken down into four stages: *preparation*, *approval*, *implementation* and *control*. This section brings together the main elements of each of the stages and it focuses on the agents involved, their interactions and incentives.

The budget covers a financial year that, up to 2005, coincided with the calendar year but, since then, runs from October 1 to September 30. Under Section 113 of the Constitution the Minister of Finance is required to present estimates of revenue and expenditure no later than 30 days after the start of the financial year and, during the first month (now October 1st to 30th), has the power to issue warrants for expenditures of up to 10 percent of the actual expenditure of the previous financial year. The main agents identified in the four stages according to the formal rules are:

- a. Government ministries, state institutions and statutory bodies that develop and execute strategies to meet the Government's national objectives;
- b. Sector interest groups including NGOs and commercial groups;
- c. The Ministry (and Minister) of Finance which has the lead role in filtering and condensing the various expenditure proposals to arrive at the final budget proposals. The Budgets Division within this Ministry is the specific Section charged with this responsibility;
- d. The Ministry of Planning which plays a major role in the formulation, monitoring and control of capital expenditure projects;
- e. The Prime Minister regarding the overall thrust of the budget and inclusion of specific measures;
- f. Cabinet which approves expenditure estimates and the final allocations;

- g. Parliament, which under the relevant legislation, has to approve the budget and also has a role in final control;
- h. The Auditor General in execution and control.

During the period 1995-2000 the Ministry of Finance was assigned responsibility for planning and was known as the Ministry of Finance, Planning and Development.