Natural Resource Funds

Trinidad and Tobago

Heritage and Stabilization Fund
TRINIDAD AND TOBAGO

Synopsis

Market Value

Heritage and Stabilization Fund
$4.7 billion

Santiago Compliance Index
65 / 100

Resource Governance Index
Natural Resource Fund Score
98 / 100

Truman Sovereign Wealth Fund Scoreboard
83 / 100

Fund Highlights

• In 2000, an Interim Revenue Stabilization Fund was created to hold petroleum revenues separately from the consolidated fund. These assets were transferred to the new Heritage and Stabilization Fund in 2007.

• The Heritage and Stabilization Fund is designed to save for future generations and mitigate the impact of volatile oil revenues, however its effectiveness depends on petroleum revenue estimates by the Ministry of Finance.

• The Central Bank of Trinidad and Tobago manages Fund assets on behalf of the government.

• The Heritage and Stabilization Fund is subject to a high degree of transparency, including public disclosure of financial information on a quarterly basis.

Good Governance Fundamentals

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**Timeline and Fund Objectives**

**Fund Inception**
- The Interim Revenue Stabilization Fund that was created under the *Exchequer and Audit Act (2000)*.
- The Heritage and Stabilization Fund Act No. 6 replaced the Interim Revenue Stabilization Fund in 2007, in part to add a savings objective to what was previously only a stabilization fund.\(^1\) All assets in the Interim Revenue Stabilization Fund were transferred to the Heritage and Stabilization Fund.

**Fund Objectives**
- The Heritage and Stabilization Fund is both a stabilization and future generations savings fund.
- The Heritage and Stabilization Fund’s objectives are to save and invest petroleum revenues in order to:
  - Cover government revenue shortfalls
  - Create an alternative stream of income to support public expenditure
  - Provide future generations with savings and investment income from excess petroleum revenues\(^2\)

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\(^1\) All assets in the Interim Revenue Stabilization Fund were transferred to the Heritage and Stabilization Fund.

\(^2\) Providing future generations with savings and investment income from excess petroleum revenues.
Good Governance Standards and Gaps in Regulation

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

12/16

Good Governance Standards Met
Operational Laws, Rules and Policies

Fund Deposit Rules

- Petroleum revenue, which includes supplemental petroleum tax, petroleum profits tax and royalties, is deposited into the Fund according to the following rules:
  - A minimum of 60% of excess (difference between estimated and actual) petroleum revenues for each financial year must be deposited into the Fund. Estimated petroleum revenue is calculated by the Ministry of Finance using an 11-year (the current year, the preceding five years and the following five years) moving average of the price of crude oil and gas as stated in the Heritage and Stabilization Act.
  - Petroleum revenues collected in each quarter of the financial year must be placed in the Fund when the estimated petroleum revenue is exceeded by more than 10%.
  - If the excess revenue is 10% or less the Minister may direct the excess to be deposited into the Fund.
  - Earned income and acquired assets from investments are deposited into the Fund.

Fund Withdrawal Rules

- Where the petroleum revenues collected in any financial year fall below the estimated petroleum revenues for that financial year by at least 10%, withdrawals may be made from the Fund as follows:
  - Whichever is the lesser amount:
    - 60% of the amount of the shortfall of petroleum revenues for that year; or
    - 25% of the balance of the Fund at the beginning of the year.
  - The Heritage and Stabilization Act prohibits withdrawals from the Fund that would cause the balance to fall below $1 billion US dollars.
Operational Laws, Rules and Policies

Flow of Funds

- Petroleum Revenue
- Consolidated Fund (Budget)
- Heritage and Stabilization Fund

Minimum of 60% of "excess" petroleum revenue

If actual petroleum revenue is at least 10% less than estimated revenue in a given year, the lesser of the following is withdrawn:

- 60% of the petroleum revenue shortfall
- 25% of the Fund balance
Investment Laws, Rules and Policies

Investment Authority
The Board of Governors gives authority to the Central Bank of Trinidad and Tobago to invest funds from the Heritage and Stabilization Fund. Investment guidelines, known as the Strategic Asset Allocation plan, are set by the Board.

Investment Allocation
The Board of Governors developed a transitional investment plan in 2011. The Heritage and Stabilization Fund was thereafter invested according to this new Strategic Asset Allocation plan that stipulated the following allocations:
- 40% U.S. Core Fixed Income
- 25% U.S. Short Duration Fixed Income
- 17.5% U.S. Domestic Equity
- 17.5% non-U.S. International Equity

Policy on in-State investments:
The Heritage and Stabilization Fund may not invest directly in Trinidad and Tobago according to the former Governor of the Central Bank of Trinidad and Tobago.
Management and Accountability

Management and internal accountability

Parliament drafted the legislation creating the Funds and has ultimate oversight.

The President selects members of the Board of Governors on advice from the Minister of Finance.

The Minister of Finance submits audited reports to Parliament and approves deposits and withdrawals.

The Auditor General submits reports that are included in the Board of Governors’ reports.

Board of Governors determines governance structure, operational and investment guidelines, reviews Fund performance and releases quarterly and annual reports of the Fund.

The Central Bank is responsible for day-to-day management of the Fund.

External accountability

Parliament

President

Minister of Finance and the Economy

Auditor General

Board of Governors

Heritage and Stabilization Fund (managed by Central Bank of Trinidad and Tobago)
Oversight and Safeguards

Oversight Mechanisms

- A domestic periodic review process of investment methodology by the Board of Governors exists to improve management of investments.

- Finances are subject to regular and comprehensive internal audits.

- Arbitrary withdrawals from the Funds are not allowed; all spending from petroleum revenues must be approved by parliament.

- Funds are managed separately from the country’s international reserves.

- International oversight institutions, such as the World Bank or the International Monetary Fund, are consulted by the Board of Governors regarding the Fund’s structure and administration.

Common Oversight Mechanisms or Safeguards Not Present in Trinidad and Tobago

- There is no domestic oversight committee empowered by law to monitor and “police” Fund activity and ensure government compliance with the regulations that govern the Fund.

- Fund finances are not subject to a regular and independent external audit that meets international standards.
When or how often Fund reports are published and made publicly available | yes
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Which individuals or organizations are responsible for publishing Fund reports | yes
Size of the Fund(s) | yes
Deposit and withdrawal amounts | yes
Returns on investments | yes
Detailed asset allocation – geographic location | no
Detailed asset allocation – asset class | yes
Detailed asset allocation – specific assets | no
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules | no
Annex:
List of Applicable Laws

Constitution
Act No. 4

Heritage and Stabilization Act
Act No. 6
http://www.ttparliament.org/legislations/a2012-06.pdf
Endnotes

1. Republic of Trinidad and Tobago Act No. 6 of 2007 Article 11 p. 7. Available at: http://www.finance.gov.tt/content/77.pdf
4. Republic of Trinidad and Tobago Act No. 6 of 2007 Article 2 p. 3. Available at: http://www.finance.gov.tt/content/77.pdf
5. Republic of Trinidad and Tobago Act No. 6 of 2007 Article 13 (3) p. 8. Available at: http://www.finance.gov.tt/content/77.pdf