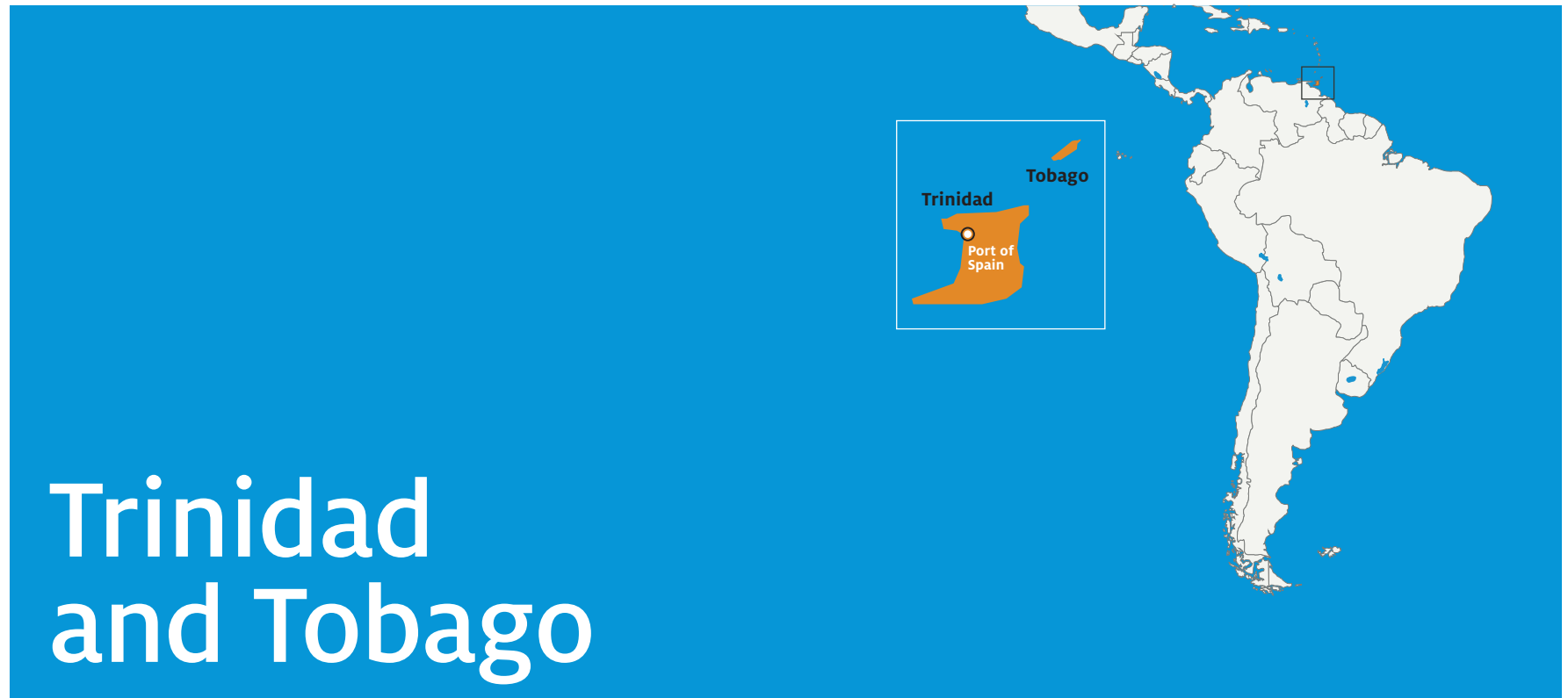


## Natural Resource Funds



# Trinidad and Tobago

Heritage and  
Stabilization Fund



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

Good Governance Fundamentals

Clear Deposit Rules	yes
Clear Withdrawal Rules	yes
Clear Investment Rules	yes
Transparent	yes
Publicly Available Audits	yes
Effective Oversight	yes

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.

## 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.<sup>1</sup> 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<sup>2</sup>

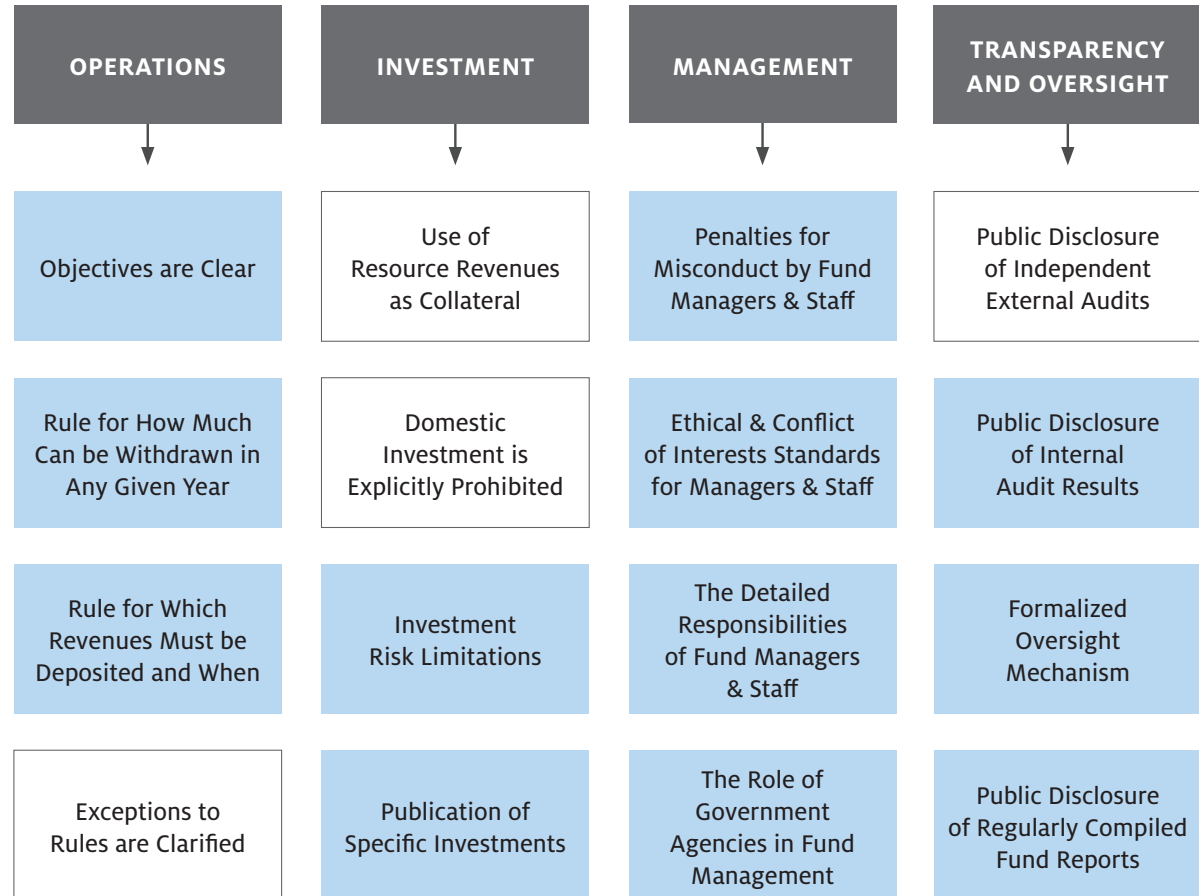
# TRINIDAD AND TOBAGO


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

## Good Governance Standards and Gaps in Regulation



 Presence of Regulation

 Absence of Regulation

*Deposits into the  
Heritage and  
Stabilization Fund  
depend on petroleum  
revenue projections  
made by the Ministry  
of Finance.*

## Operational Laws, Rules and Policies

### Fund Deposit Rules<sup>3</sup>

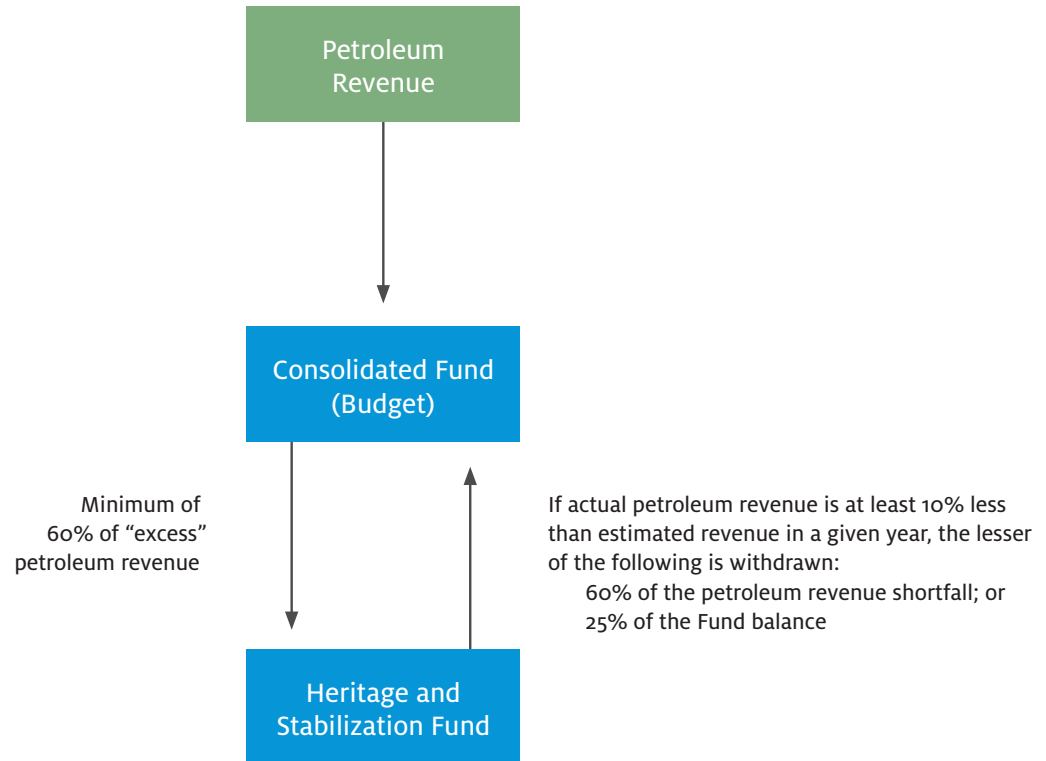
- Petroleum revenue, which includes supplemental petroleum tax, petroleum profits tax and royalties,<sup>4</sup> is deposited into the Fund according to the following rules:
  - A minimum of 60% of excess (difference between estimated and actual) petroleum revenues for each financial year must be deposited 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.<sup>5</sup>
  - 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<sup>6</sup>

- 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



## 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.

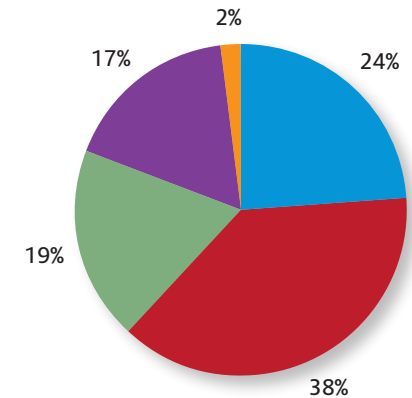
### Investment Allocation

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:<sup>7</sup>

- 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

### Allocation by Asset Class<sup>8</sup>

As of September 2012



- U.S. Short Duration Fixed Income
- U.S. Core Domestic Fixed Income
- U.S. Core Domestic Equity
- Non-U.S. Core International Equity
- Cash

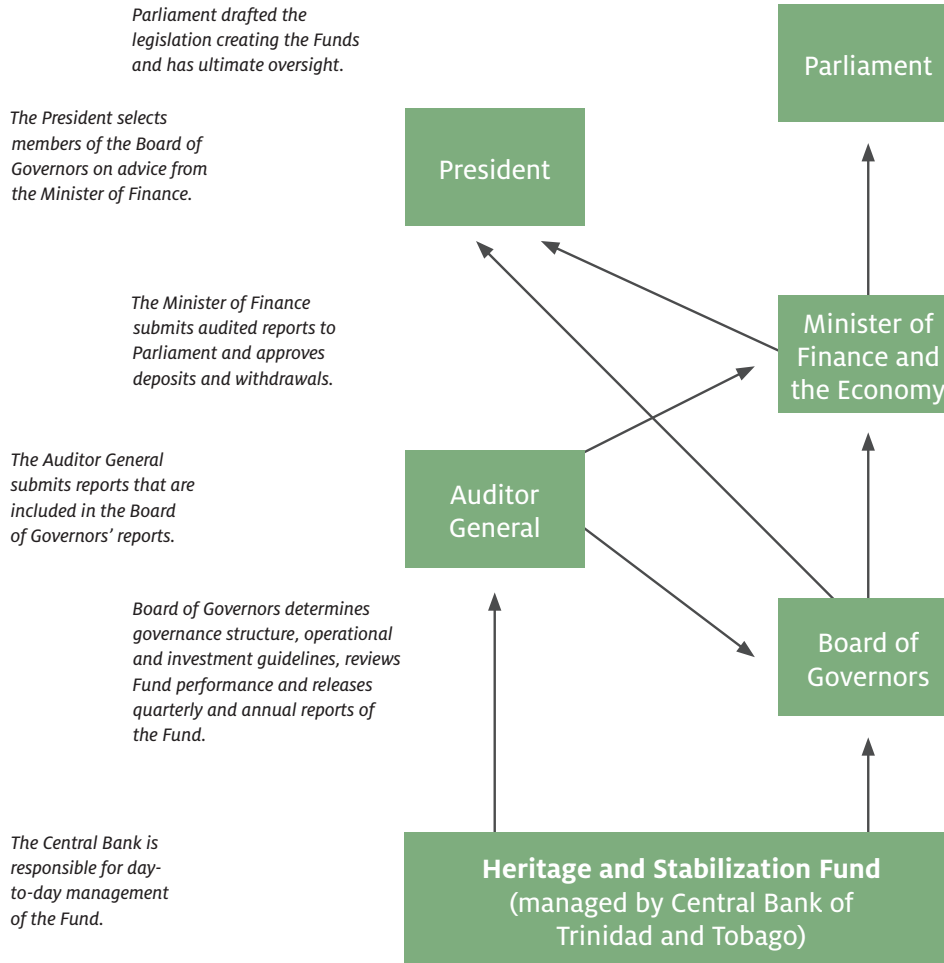
### Policy on in-State investments:

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.<sup>9</sup>

# Management and Accountability

## Management and internal accountability

## External accountability





*Annual reports, verified by the Auditor-General, and quarterly reports are made public. However financial information is not subject to independent external audit or independent oversight beyond parliament.*

## 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.

## Transparency Laws, Rules and Policies

**There is public disclosure of the following:**

When or how often Fund reports are published and made publicly available	yes	
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

<http://www.ttparliament.org/documents/1048.pdf>

### 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>
2. <http://www.finance.gov.tt/legislation.php?mid=20>
3. Republic of Trinidad and Tobago Act No. 6 of 2007 Articles 12-14 p. 7-8. 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>
6. Republic of Trinidad and Tobago Act No. 6 of 2007 Article 15 p. 8-9.  
Available at: <http://www.finance.gov.tt/content/77.pdf>
7. Trinidad and Tobago Heritage and Stabilization Fund Annual Report 2012 p. 30. Available at: [http://www.finance.gov.tt/content/HSF\\_2012.pdf](http://www.finance.gov.tt/content/HSF_2012.pdf)
8. Trinidad and Tobago Heritage and Stabilization Fund Annual Report 2012 p. 30. Available at: [http://www.finance.gov.tt/content/HSF\\_2012.pdf](http://www.finance.gov.tt/content/HSF_2012.pdf)
9. <http://www.bis.org/review/r080514d.pdf>