

Strengthening Corporate Governance in State-Owned Enterprises

Salutation

Minister of Finance, Other Ministers of Government, Chairmen, Board Members, Permanent Secretaries, Distinguished Guests, members of the Media.

Let me take this opportunity, first of all, in extending my very best wishes for 2017 to you and your families. My wish is that you enjoy the best of health, receive all God's blessings and that you make this a very productive and satisfying year.

I thought that I should start this Symposium by emphasizing why we're here this morning. First of all it is to underscore to all of you present that the Government firmly believes that our State-owned Enterprises (SOE) have a critical role to play in the supply of economic goods and services in Trinidad and Tobago.

We also need to face the harsh reality that, in general, too many of our state-owned enterprises have been underperforming – some much more than others. Some might even have deviated so far from their original purpose as to become the problem they were created to solve.

This Government is committed to addressing the performance issues of all our state enterprises, defaulting and otherwise. We do so, in part by reforming the way they are governed – in other words, we need to re-examine our corporate governance structures, as they relate to the state sector.

We recognize that this is a difficult task because it means addressing a host of complex issues. It is indeed likely that the Government is part of the problem and that we need to examine how Parliament, Ministers and Ministries interact with the state enterprises, under their charge. We accept that there are legitimate questions, for example, as to whether some state enterprises have sufficient autonomy; or whether the roles and responsibilities of the state enterprise Boards and the supervising Ministries are sufficiently clear.

While appropriate laws, regulations and codes are needed, we are under no illusion that these are a panacea. For certain, the problem also involves attitudinal changes to our duties. It is against an understanding of this aspect of our challenges in this sector why only recently the Minister of Finance has seen it fit and very necessary to issue a stern circular memorandum to all Management and Boards in the state enterprise sector that the timely submission of financial reports, whether audited or otherwise, is an uncompromising demand, going forward.

Government employees, as well as employees of state-owned corporations, must be committed to executing government policy and dedicated to serving the public by operating their businesses using best practice models. This objective includes proper oversight and reporting as well as eliminating opportunities for waste, abuse and corruption.

The Government is committed to making the state enterprise sector more efficient and more effective. We believe that part of the solution rests with reforming the present governance model. We also believe that the reform process could benefit from a detailed and dispassionate analysis

of what the main issues are. And we honestly want to hear your views. That in short, is the main reason for the Symposium. We acknowledge that many of you are volunteers doing yeoman service at your respective stations but let us not forget that wherever we serve we are first and foremost citizens of this country and as such we are shareholders with equity in every investment of the state.

For the younger ones among us today, I would like to give a brief overview of the evolution of the state-owned enterprise sector since Independence.

During the 1960s in the face of concern of the domination of our main economic sectors by the multinational corporations and stagnation in expansion in the range of economic activity, the Government decided to take control of and to grow “the commanding heights of the economy” and in so doing the public sector became more and more the prime mover of economic activity in our country. That is where you are now located as managers of taxpayers bounty, in essence you are the gate-keepers of the children’s future. You fail then we all fail.

The Government first became directly involved in utilities and transportation, telecommunications, then banking and finance and the energy sector through its policy of “localization”. Thereafter state-owned enterprises were created in the manufacturing, and other sectors. As a result of this policy, between 1970 and 1985 the portfolio of state-owned enterprises more than doubled.

As you know, the oil shock of the mid 1980s seriously reduced Government revenues (pretty much as is happening now) and took a heavy toll on the Government finances and on the economy in general. Thereafter, in the context of a structural transformation programme, in the late 1980s the Government began to take steps to reduce the portfolio of State-owned Enterprises as part of a process of fiscal consolidation. This led to the creation of the “Divestment Secretariat”, which presided over the privatization or liquidation of several state-owned enterprises, many of which were in financial difficulty for one reason or the other, not the least of which were poor management, wasteful spending and liberal doses of corruption.

As Government’s fiscal position strengthened, based on higher oil prices and the growth of LNG exports, in 2004 Government began to create a new set of state-owned enterprises in order to ostensibly:

- improve implementation of the public sector investment programme (Special purpose enterprises),
- facilitate investment in the private sector,
- foster development of particular industries, identified as agents of diversification and
- to address issues of social policy.

This policy has brought us to our present situation where we have about 100 state enterprises and their subsidiaries. Not all of them necessary and not all of them well run.

Ladies and gentlemen, to put it mildly, performance of the State-owned Enterprise sector has fallen far short of what we expected.

- most of the commercially-oriented state-owned enterprises have accumulated significant losses, requiring large transfers of cash support from the Central Government. I trust that the Ministry of Finance would produce the raw numbers of this reality for your benefit and that of the wider national community.
- Additionally state-owned enterprises have contracted sizable debts, which they have not been able to service, leaving the burden as permanent liabilities to the Central Government;
- too many state enterprises have circumvented financial constraints by accumulating arrears to Government or other state-owned enterprises (particularly the public utilities). Subscribing to the dubious principle of “Massa bull, Massa cow” the accounting entanglements have resulted in nothing short of a financial mess among some major state enterprises.
- instances of weak project planning, questionable procurement procedures and poor financial management practices are all too prevalent in the sector;
- late reporting or no reporting at all, (including submission of financial accounts abound)
- and as if to add insult to injury, the sector is often accused of poor service delivery leading to widespread public discontent.

There are several pieces of legislation and other initiatives that seek to raise the performance of the state enterprise sector.

On the Legislative Side there is:

- The Companies Act (1995) and
- The Integrity in Public Life Act (2000). There is also
- The State Enterprise Performance Monitoring Manual which provides a document framework for compliance with significant guidance for anticipated good corporate governance. In addition,

➤ The Public Accounts (Enterprise)

Committee of the Parliament (PAEC) conducts hearings at which representative of state enterprises and the line Ministries are questioned on the financial and other matters of concern to the Parliament. This is done on live television and affords the public an unfiltered view of how their business is being run or should I say ruined? As this process grows and continues to inform public appreciation I feel some personal pride and satisfaction as the Chairman of the Parliamentary Committee which recommended the live broadcasting of proceedings of debates in the House.

The legislative and other codes in particular the Monitoring Manual, outline minimum standards and even though these may fall short of “best practices”, they would significantly raise performance standards, if they are rigorously observed and enforced. The fact is that, as a general rule they are not.

It is worth noting that many large and important state enterprises have not produced audited financial statements for over five years and that under 15 percent of all the state-owned enterprise submit their audited financial statements in the stipulated period, even where the law requires it.

Today I want us to accept as posited that, as a general rule, poor governance always guarantees poor performance.

While I have no intention to go through the Performance Manual, I would like to allocate the last few minutes of this opening presentation to identify some of the broad principles that we need to adopt, if we are to have a quantum improvement in institutional governance.

The experts will tell you that, in the state enterprise sector, good governance starts with a clear definition of the respective roles of the major players the Minister (and by extension, his Ministry); the Board of the enterprise and the Management of the business.

The Role of the Minister and the Ministry is to define the main objectives of the enterprise and to make the Board and Management accountable for achieving these objectives. The Minister/Ministry should also ensure that there are clear processes and criteria for assessing and evaluating performance in a timely fashion.

Obviously it is important to ensure that the Board that has been selected is up to the task. That is why our Government has been taking special steps to ensure that Board members possess the appropriate balance of skills and competencies, along with the highest standards of integrity. We require our Boards to have respect for value for money and to be guided by principles of fairness, transparency and accountability.

The Board has the onerous but necessary duty to recruit and train good management, to support such management, including succession planning and to remove deadwood and obstructionists according to the tenets of good industrial relations.

The Board must be given sufficient autonomy to deliver the stated objectives within the laws and regulations that govern the state enterprise. For its part, however, the Board should focus, as much as possible, on strategic issues rather than on the day-to day running of the enterprise. That should be left to the management (which should be held accountable).

It is important to note that a Board appointment is an opportunity to serve. It is work. The Board's commitment to doing its work is what will keep Management appropriately focused. It's the Board's duty to ensure that management follows the rules and respects good corporate practices. Accordingly, Boards should insist that Management institute effective internal controls, transparent procurement systems and responsible disclosure policies.

The State Enterprise Performance Monitoring Manual, with which you should all be very familiar, mandates the establishment of audit committees to assess the effectiveness of internal controls. Read it, then follow it.

Under the provisions of the Exchequer and Audit Act the Minister of Finance, as Corporation Sole, has responsibility for monitoring the financial performance of all state-owned enterprises covered by the Companies Act. The performance Monitoring Manual also mandates that State Enterprises submit certain specified information on a timely basis to the Investment Division of the Ministry of Finance. Many enterprises have not been abiding by this requirement. This will no longer be tolerated. The Ministry of Finance has been instructed to insist that state enterprises comply with this obligation. There will be consequences for non-compliance.

Ladies and gentlemen, it's no secret that over the last two years or so our economy has been going through a difficult period, caused, for the most part, by the dramatic fall in energy prices. The revenue squeeze has meant that the Central Government has had to exercise tight control on Government spending. You, as Directors and Managers of the State Enterprise cannot be unmindful of the macro-economic situation.

Current fiscal realities demand that you treat responsibly with resources of your various institutions by carefully reviewing their spending plans, taking a stand against waste, over spending and corruption and insisting on value for money.

It is worth repeating that improved governance will inevitably lead to enhanced operational performance. You as directors owe that to your ultimate shareholder – the people of Trinidad and Tobago.

Thank you for agreeing to serve and we all look forward to dramatic improvements in the performance of the state enterprise sector as you put your professionalism to work for the children and the future.

Thank you, very sincerely, for your attention.