

Address by

**SENATOR THE HONOURABLE MARIANO
BROWNE, MINISTER OF TRADE AND
INDUSTRY AND MINISTER IN THE MINISTRY
OF FINANCE**

AT A SEMINAR ENTITLED

***“Corporate Governance in the State
Sector”***

**June 09, 2009
Hilton Trinidad and Conference
Centre, Ball Room
8:00a.m – 12:00p.m.**

CABINET COLLEAGUES

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LADIES AND GENTLEMEN

It is a great pleasure to welcome you here this morning to the Seminar: Corporate Governance in the State Sector. I wish to thank you for taking time off from your busy schedule to be here this morning. In recognition of this your schedules we have tried to keep the seminar tight in terms of time and content.

It is important that we revisit these issues from time to time to ensure that we are all on the same plane and that we iron out any difficulties or misunderstandings on how we operate.

Let me begin by reaffirming Government's commitment to the free enterprise model notwithstanding the recent developments in the international economic environment. It is clear that there will need to be a realignment of the governance and regulatory structures as a result of the recent financial crisis in the developed OECD countries which will affect us. There may be the temptation to tinker with the system at the margins, but that would be an error. There are clear areas where regulatory oversight is required and that the principle of deregulation has run its full course.

In the Caribbean own and in deed in most developing counties we have had little exposure to the melt down but we have suffered knock-on effects.; our growth has slowed as result of the fall in prices for our energy related exports and for exports generally as growth in or prime exports markets has slowed. Happily our regulatory structures have not been tested in the same fashion and our banking sector has remained robust and strong.

The development plans have slowed somewhat this year in the face of the slow down in our revenues and consequent investment expenditure.

Nevertheless, it is important that we refocus on our governance arrangements and improve our operations for the future. The State Enterprises have a critical role to play in Trinidad and Tobago's developmental thrust. And we are not unique in this regard. Singapore represents one of the best models of public investment in the State sector and its ability not only to aid in the transformation of the economy, but also to become robust players on the international market. Brazil's Petrobras is another example of this capacity building and successful implementation.

It is important therefore that we reconsider our models as we have instituted them in the context of Trinidad and Tobago and to seek ways to improve what we are doing and the contribution to nation building and nation building capacity. State enterprises have long been a part of government's execution arm since 1979 to be exact.

In 2005, the Government identified a more active role for State Enterprises in that they would assist in implementing projects and programmes under its *Public Sector Investment Programme (PSIP)*. These enterprises were Special purpose State Enterprise, which were

mandated to be engaged in developmental projects in areas critical to overall national development such as education, national infrastructure, urban development, community development, sporting infrastructure, and tourism.

At present, the State Enterprise Sector covers a wide range of economic activity in several sectors:

- Energy and Energy based**
- Financial Services**
- Manufacturing and Agro-based Industries**
- Services**
- Transport**
- Communication**
- Infrastructural Development**

The critical task of these enterprises is no different from your private sector counterparts: economic efficiency through better allocation of resources; transparency and accountability in all operations of the companies; and adherence to the rule of law.

Therefore, improving the governance of state-owned enterprises is an important public policy objective. And the reason for this short seminar here this morning. We understand that you must operate like other private sector organizations even if in areas which are not adequately served by the private sector. And we must improve as we move onwards.

Our purpose today is not to tell you what you already know, but to outline areas for improvement and identify new initiatives to improve the governance model going forward.

Among the most important initiatives introduced by Government as part of its efforts to ‘strengthen governance’ are:

- **On-going Reform of the Procurement Regime**
- **Placing Representatives of the Central Audit Committee**
- **on Audit Committees of State Enterprise**
- **E-Auction as an initial step to fill e-procurement**
- **Management Protocol**
- **Revised Performance Monitoring Manual**

Reforming the Performance Monitoring Manual includes requirements for an investment policy, expanded audit rules and the establishment of Audit Committees.

The need for investment policies is crucial, given the need to obtain value for money and manage the use of surplus cash in an environment where questionable investment decisions have created a chain reaction of company failures.

Government had previously recognised the need to improve the procurement system and had published a white paper identifying a way to move forward. Whilst we have not changed our commitment to improving the process, the White Paper as currently stands is not workable and we are reviewing our position on its implementation. We are refocusing instead on transforming the existing system from a manual to electronic system inclusive of a complaints mechanism for those affected, penalties for breaches and electronic registration of contractors/ bidders.

At the same time the Ministry is spearheading its objective to implement e-auctions in the State Enterprise Sector by 2012. Over twenty-two State Enterprises have already participated in e-auctions or online bidding generating substantial savings to date on the areas that have been included in the process; computers, papers, pipes and generators.

The Ministry of Finance has already mandated all State Enterprises to use e-auctions as an alternative form of procurement. Future work will involve working closely with the Inter-American Development Bank to develop a strategic plan and the use of Champions, in particular WASA, Petrotrin and Phoenix Park Gas Processors to serve as role models for the Sector. The e-auction programme will continue to be guided by the Cabinet appointed e-auction Task Force.

The Ministry has also mandated all State Enterprises to establish Audit Committees to assess the effectiveness of internal controls of these companies. Some companies have not yet established these Committees. Members of the Central Audit Committee of the Ministry of Finance will sit as members on these Committees.

As mentioned before, the Ministry of Finance as Corporation Sole is responsible for managing State Enterprises. Therefore, the Ministry monitors the performance of State Enterprises through the Performance Monitoring Manual, the manual outlining Standard Procurement Procedures for the acquisition of goods and services and systems audits. However, it is apparent that there is reluctance by some companies to comply with the basic monitoring requirements. Accordingly, you are now required to ensure the timely submission of Board Minutes, Strategic Plans, Financial Statements, Cash Statements of Operations and Status of Loan Overdraft portfolios. In particular Board Minutes should focus on compliance with Strategic Plans Company mandate financial performance, human resource and litigation issues.

The Ministry has also obtained Cabinet approval to introduce a Management Protocol which will focus on ensuring that infrastructure projects are effectively managed against international and Ministry of Works Standards and International benchmarks in order to reduce cost overruns and ensure high quality output re: bridges, roads, buildings and other physical infrastructure.

Ladies and Gentlemen, let me summarise by saying that the critical success factor for all our state enterprises is not merely the adoption of new regulations : the critical success factor is management and the execution of policy by the management. And I need you to focus on improving that critical variable. I look forward to a considerable improvement in the compliance of State Enterprises to the monitoring requirements of the Ministry of Finance which is essential for achieving our 2020 Vision for development.

Thank you all.