

Clearing the Clouds

To See the Blue Sky

Synthesis between Political and Economic Logic

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Transition from Bad to Good Governance

- ✚ *Responsible governance* is at the very heart of the process of democracy and also inclusive development. People think sometimes that politics has no logic. For those of us who have had an economic tradition, we recognize that economic logic does in fact dominate political thinking. So let the politician speak, but know that economic laws will prevail in the long run. Good governance, really, is about a synthesis between political logic and economic logic and we are trying to understand how to create a system of good governance in our country.
- ✚ *Responsible governance* will require us to understand that we are moving from one state, from a period of bad governance, to another state; good governance in the future. Therefore we have sometimes to accept what is seen as bad governance because we are in a transition - a transition to put a firm footing the requirements of good governance. It is in that transition, as I said in the budget debate, that we make this transition from a discredited conduct of politics to a new pathway to good governance and inclusive development.
- ✚ The key issue in responsible governance is the acceptance of responsibility. All the talk that we have will go astray if we do not accept responsibility in whatever way and wherever we are stationed. Accepting responsibility is much more difficult *to do* than to say, and the key requirement of responsible governments is the acceptance of responsibility.
- ✚ We have a tendency to blame everyone including our own institutions - the system is at fault or the stakeholders' attitudes are at fault and of course ending up with the politicians being at fault, but never ourselves as leaders of organizations and institutions. Accepting responsibility is a very serious requirement of responsible

governance. Whether that responsibility reflects itself in any aspect of public or private life, private sector or state sector, it is something as a nation we have to correct. Too often those who hold positions of responsibility refrain from taking the responsibility themselves.

Responsible Governance Involves Taking Risk

✚ We must fundamentally accept that whether we are a worker or consumer, there is a sense of civic responsibility that must be taken. In so doing accepting responsibility is not without risk and in a risk adverse society people tend not to accept responsibility; it is the easier way to go, although they may be the head of an institution. Sometimes those who talk about managing risk assume that you must take no risk. If you take no risk there will not be any rewards and in that sense we have to look at the issue of good governance in terms of taking risks. Citizens have made and taken the risk of changing government. What we must do now is to work out the mechanics to ensure that risk that the society at large took can begin to see the results of that risk.

The Challenge of Removing the Clouds

Preparing the Platform for Recovery

✚ There is no doubt in our minds that the economic challenge facing us is a serious one - not one that cannot be overcome, but it is serious one and we have to find a way forward. The challenge that we face in the economic front is primarily located in the fiscal space available to us. It is a challenge that has come about for various reasons - some external, some internal - but the fiscal space open to the government is not as large as anyone would like it to be. But more important, there are certain leakages that are in the system that must be plugged in order to create more space. And having plugged them, we must then fix the platform and having fixed the platform then we must get into the momentum for recovery. That essentially is the framework of how we address this problem. What are the leakages that we have really found? If the fiscal challenge is the greatest one then we must remove those clouds from the horizon.

✚ The clouds represent the uncertainties in the financial world. And those uncertainties reflected themselves in the demands emanating from the Clico situation, from the perceived arrears owed to contractors, from the constant cry of the business sector that value added tax refunds are not paid on time and now they are large. True, these are realities even if at times exaggerated in the press. We must remove these clouds in order for us to see the blue sky ahead of us. And unless and until those clouds are removed, uncertainty will remain the order of the financial landscape.

✚ That is why as Minister of Finance and as the Government of the People's Partnership we immediately tackled, perhaps the most significant of that, which has to do with the fallout from the Clico fiasco. We are ready and willing and we shall begin to pay out, to inject more cash into this economy. The TT\$75,000 we had in fact indicated we shall do in order for the 25,000 depositors who have been so affected. Our objective now is to inject the cash in the economy especially at Christmas time. Whether we can actually accomplish that in time will depend on some bureaucratic concerns, some of which will have to go back to Parliament to raise our debt ceiling possibilities.

✚ But as far as the rest is concerned, we are working steadfastly at it. I have spoken to the Governor of the Central Bank and we are ready, not only with respect to Clico but also with respect to the HCU, a problem not dissimilar but a problem that also has some complexities. So in a general sense we are interested in injecting some further cash. They say when you are restructuring an enterprise cash is king. When reordering a country, cash is also king and we acknowledge that is the requirement of today. But that requirement can only satisfy some long term strategy to fix the platform and to resume economic recovery.

✚ **UDECOTT Debt & Contractors**

There is a lot of misinformation with respect to the contractors.

A newspaper article claimed that UDECOTT owes the contractors TT\$8 billion. The truth is UDECOTT has a debt of TT\$8 billion. Much of that debt is owed to the banks of the country. Some of it is owed to some contractors and most of it cannot be effectively and quickly processed because there is a validation process that must go through before payment can be made. And the real difficulty in that problem has to do with the validation process and getting it going. We met with the contractors not too long ago and told them that please verify with your respective ministries your claims. We do not need bonds to pay the contractors. The financial situation is improving at the level of government and we have made appropriate appropriations but we cannot spend this money without an appropriate validation process that can be certified. That is what I meant when I said that good governance must overtake bad governance.

✚ **VAT Commitment**

With respect to the VAT, there are critical issues. We have been in discussion with the Board of Inland Revenue (BIR) and indicated to them that they must indeed meet the tax commitment within the legal stipulated time or else the claim will have to be accepted. We are even discussing reducing the time. The BIR has been instructed to take

steps to accelerate the payment of VAT that are owed and in which there are proper invoicing, as quickly as possible, so that we can get some more cash into the system for the business sector.

Foreign Exchange

Then there is the entire issue with respect to foreign exchange. Much of the business sector has been complaining about the growing cues, in a situation where this country has an exchange rate system that has worked and has worked very well and the foreign reserve position in this country continues to be healthy. We have spoken with the Governor of the Central Bank regarding what will be made available to the population in terms of supporting the exchange rate regime. He has ensured that they will increase the availability of funds within the limits of their own policy. But we are still trying to decipher why it is that the demand for foreign exchange is rising and the imports are falling. We will decipher that sooner rather than later.


These are some of the issues in the cloud that we must cleanup. But we can only do that if we can in fact now fix the platform and start the process of economic recovery.

Fixing the Platform for Growth

Start the Process of Recovery

International Monetary Fund

We had visiting us two very important missions from the International Monetary Fund. The first one is an annual mission that comes each year to each member country to assess the financial situation in that country, to identify the risk and to suggest, perhaps, whether we can be considered to have passed the test of credit worthiness. We also look at the prospect of the future in light of government announced policy. They have said that they normally would have done this in June but we persuaded them to come in November after we had done our Budget so they will understand what is the direction of the new government.

 We are pleased to indicate; and that report in January will be submitted to the Board of the International Monetary Fund but we gave a press release or rather they gave a press release which has been made public. But after their assessment of this situation and their clinical review of the financial situation, not always agreeing with what the government says, doing an independent analysis, they concluded and

announced in a press release to the international community and also to the local community a realistic assessment of where we are. *Trinidad and Tobago's growth is expected to pick up only in 2011 with the near term risk to the downside reflecting fragile confidence, the weak regional output, the global uncertainty, notwithstanding the expected firming of energy prices, the economic prospects over the medium term are weaker compared to the strong growth preceding the economic crisis.*

- ✚ It is true in 2009 we had registered a negative growth rate of about 3.5%. In 2010, as indicated earlier on that we will have flat growth. Subsequently, there was a slight increase in the price of gas and oil, but at the end of it we still expect to have flat growth in 2010. But in 2011, we will begin to see the emergence of the recovery process. One of the main conditions upon which that will take place is to remove the clouds in the financial landscape. And we are ready and willing and the government is taking decisions to remove those clouds as fast as we can so we can begin to see the sky in its blue colour.

If for some reason the political logic and economic logic vary we will have to apply all the principles of good governance to make it work. At this point in time, we can give you the assurance that we are on that track and that we shall move those clouds quicker than most people think. But we must be responsible and when we submit those claims either for VAT or for the contractors fees, we must have it documented with the right authority and with the right invoices.

- ✚ **There is a lot of noise in the system.** Noise develops when there is really a sense of frustration. We want to urge those who have been affected by these clouds to let us not get frustrated. We have to work to get around this problem so that we can move to a transition of, *"the bad governance"* to the hope of optimism of good governance. But that is not all that is required. Removing the clouds requires us to have a specific economic strategy to handle this problem. Let us briefly outline what is on the horizon at this point in time.

Public Sector Investment Programme

We recognize that the triggering of growth in the Trinidad and Tobago economy will depend largely on how the construction sector gets back on its feet. And for those who had wished to look at the budget presentation that was made just two months ago, less than two months ago, you will see a fundamental shift in the composition of our Public Sector Investment Programme. We decided deliberately to put most of our programmes in construction related activities.

For this year 2010/2011, we have the Public Sector Investment Programme of about TT\$7 billion of which TT\$5.4 billion has been earmarked to construction type activities, that is - 75%. We were aware of the need to push this economy by government spending in construction. Of course, that will happen over time because to build the hospitals, to build the highways requires a process. But the funds are there to initiate the whole process and to ignite it.

Investment

Then the second question on growth has to do with the issue of investment. Well, we very carefully put together a taxation regime during the budget presentation which has now made the issue of investment, at least one, on which there are going to be no real obstacles. Without going into details, we have now provided lots more incentives for the private sector to get engaged. What has been the outcome of that?

The energy sector remains very critical.

- ✚ We know that we are moving towards a transformation of the economy where we will build the rest of the economy over time. But there still remains an important factor. We immediately began by changing the regime for exploration of gas and oil which was announced and actually implemented. As a result of which, before now or on the last rounds when invitations were sent out for the bids to be assessed for exploration and drilling activity, the response was zero. Because we have now changed the tax regime to support it, the Minister of Energy advised us that the recent bids that were evaluated have attracted an investment of US\$250 million and therefore we will start some exploration activity. But in addition to that she has indicated that in energy investment in the country, we have recently commissioned the plant, the AUM11 facility, which has estimated a capital cost of US\$1.9 billion, therefore providing some energy stimulation. In addition to that, they have already commissioned another plant, another project with a capital expenditure of US\$300million.

Non-Energy Projects for Growth

- ✚ We are not talking about what is in the pipeline because there is a lot in the pipeline. We are talking about what has happened and what decisions have been made and what are the results of that. Energy alone must not and cannot generate the growth. As a consequence, we had detailed discussions with the Minister of Industry and Trade who indicated that he has available immediately projects that would hit the ground in the first quarter of 2011. The value of that domestic investment is likely

to be TT\$1.3 billion. So you are seeing really that the regime that we have put into place is now attracting some confidence both in the domestic economy and in the international energy economy and sooner than later we shall be embarking on a more aggressive programme for more foreign investment in the non energy sector.

Liquidity in the Private Banking Sector

- ✚ Now that is the platform that will be fixed and that is the platform that will generate and trigger economic growth. But that is not all. We need to keep deepening the process, and in deepening the process we are acutely aware that there are TT\$4 billion of credit available in the banking system but there are no demands for business loans. What can we do to convert that available liquidity into business loans, more than the figures have pointed out to you? For clearly the problem is - although there is little fiscal space in the government there is enormous fiscal space in the nation.
- ✚ We have to collectively work towards finding the necessary recipe to de-risk business loans to increase the demand for it and therefore generate the kind of activity that people are calling for. But we have had enormous intervention with respect to seeking additional financing support. We recognize that if we have to run a fiscal deficit of \$7 billion or 5% of the GDP, it cannot go on for all times. Every fiscal deficit turns out into dept the next time around and therefore since we have to control the debt situation to control the macroeconomic situation of the country we have to have a programme over time to reduce that fiscal deficit. But must do so without stifling growth and without stifling investment and that is the broad outline of the platform that we have developed.

Inter-American Development Bank

- ✚ We have had discussions recently with a specific international organization, the Inter-American Development Bank. This is a development bank that services the entire western hemisphere. They have been a strong supporter of Trinidad and Tobago's development in years gone by, but for some reason when money was no problem the then view was let us go to the international capital market. One of the policy shifts that we made and I made as Minister of Finance is to open negotiations with the Inter-American Development Bank and within the last two months. I am pleased to let you know that on December 1st of this year there are two facilities that will be made

available to Trinidad and Tobago – one of US\$100 million goes to the board for approval for the purposes of helping us finance the Public Sector Investment Programme (PSIP).

- ✚ The bank worked diligently and with great speed to make that happen within two months. And in addition to that they have agreed to put to the Board a further proposal for a housing loan of US\$40 million. So on the December 1st meeting of the Inter-American Development Bank Board in Washington, we expect those two facilities to be approved subject to politics interfering. Which we would also deal with.
- ✚ In addition to that we have worked out a programme for the next five years including 2011. We have worked out a programme with the Inter-American Development Bank of the order of US\$430 million for 2011 in many different areas which we have identified in our new budget priorities. So we expect that to come into place to help us in the fiscal limitations that we have. But the most interesting thing about that facility, it is done in a context of about 3 to 5 year plan in which the bank has, at least in principle, committed itself to providing US\$1.3 billion to Trinidad and Tobago development needs over the next 3-5 years. Some have worked out a pipeline of financing and you would be happy to hear that the terms of that financing as of now, with respect to the loan of US\$140 million in December and a further US\$430 million in 2011, is that we are borrowing that money for twenty-five year repayment, 5 year grace, at an interest rate of 1.3%. That is the fundamental shift from the days we went to the private capital market at significantly higher costs.
- ✚ We are very pleased that that we had a full discussion on this matter and we are very privileged that the Inter-American Development Bank sent a team headed by its Vice President to consolidate the discussions that we have been having over the last two months, less than two months. (Roberto Vellutini the Vice President of the Inter-American Development Bank, and the director of the Caribbean Inter-American Development Bank, Mr. Gerard Johnson)

International Financial Corporation

Now investment - public investment, private investment, foreign borrowing that is on good terms has to be supported by some major measures that will change the framework.

Public Participation in State Enterprise Ownership

- ✚ On the larger economic front we have begun discussions with the International Financial Corporation, which is the private sector arm of the World Bank. They have been here, they did an assessment and we asked them to do two things with us. In the budget

presentation we indicated that we wanted to develop a democracy where the people can participate in the fruits of that democracy and that they should share in the ownership of the country assets. And to do that, the state enterprises should now be rationalized to allow for equity offerings to the public. That is a policy directive.

- ✚ We have already announced a policy programme on public offerings but we cannot announce that today and start it today. So I have invited the International Financial Corporation to join with us in the government to work out the modalities for that. To do an exercise to make it rational. It is not 'iffy' any more. It must be programmed for a 3-5 year and beyond. And they have agreed in a letter that they sent to me not too long ago, to come at the end of this month to do what they call a scoping exercise to look at the state enterprise sector with us and to look at how we can begin to introduce public offerings of the state enterprise sector.

There are many issues to be resolved.

Many of them would require the synthesis between political logic and economic logic but that is why we are here. We are here to exercise good governance, but we have to do the technical work. You know the reason why we were always sure that the Clico proposal that was put forward to this government which accepted it and to parliament which accepted it, will always reign because it was technically sound, economically right and politically correct at the same time. We knew that.

- ✚ The International Financial Corporation is going to undertake two tasks with us and they are coming at the end of November to start that. Making business easier to do. There are many obstacles to doing business in this country. We know that we rank very low on the ease of doing business index. We said earlier that we rank very low on the issue of corruption. We have to correct that and we got to correct these things at the source.
- ✚ One of the assignments that we have agreed for them to do is to institute with us a programme for making the ease of doing business. Too many restrictions, too many problems, too any hurdles, but they have done this in other countries and we are sure it can be done with help or our own home-grown experts. And the second one as I said would be to design a programme for public offerings.

A New Paradigm of Growth

So while we are clearing the clouds and fixing the platforms we are setting the stage for sustainable growth on a new paradigm. You cannot expect to get growth on an old paradigm that had failed. You cannot expect this country to have sustainable growth on a

paradigm of development that was based on high buildings and low effort on the part of the people. You have to change the paradigm. But changing the paradigm requires us to do the preparation, the ground work and win the public in the process.

✚ To win the public there are two things we have agreed to. There is an interesting proposal that the Inter-American Development Bank shared with us and it has to do with an energy innovation centre that is set up under auspices of the Inter-American Development Bank in Washington. And with the support of the US government, and it is significant that we have received their support, we are not looking in-depth at the establishment of a renewable energy centre in Trinidad and Tobago.


✚ In our budget preparation and speech you will recognize we had given a lot of fiscal measures there and we are now setting institutions in place to convert that policy into action. And that we are now discussing with them how to set up a renewable energy centre in Trinidad and Tobago to help in the feasibility studies, to help in the promotion of investment opportunities in these areas.

Private Sector Involvement

So if the private sector remains a sector that says managing risks is not taking risks, we are going to show them how they can take risks and make money at the same time. And those are the kinds of work that we expect to do. But we recognize that the society must indeed be brought into confidence as you remove the clouds and we see the sky and we begin to introduce the measures the society must be brought into confidence. They must be brought into confidence on the reality as they are, they must be brought into confidence into the objectives as they are and they must be brought into confidence on their commitment for that future.

In light of what has been happening recently in another very challenging situation with respect to the negotiations from the public sector wages. We have conducted that and with the highest level of professionalism and integrity and we know that reason will prevail. We have already indicated that we shall consolidate COLA in the existing wage structure which is tantamount to 4% increase in the wage at the lower level not at the higher level. We have already indicated our desire to offer a comprehensive medical plan for the workers in the public sector that goes beyond the individual to the entire family, so that public sector wage employees can have access. That we are told will depend on them rather than on us because that is not part of the negotiations. But we have put that on the table. We are interested in protecting the living wage. We are interesting in providing the support mechanisms for the lower income groups and then we will see within the limits of the space

available to us what can and cannot happen, without putting at risk the long term debt of this country or increasing the fiscal debt of the nation.

 **It is not our responsibility to satisfy today's generation at the expense of tomorrow's generation.**

Multi-Stakeholder Conference

To do that we are now looking at what we call a multi-stakeholder conference where we shall bring together the labour sector, the business sector the civil society, not to negotiate, since that is going to be done on the table and we issue the call, we shall deal with that on the bargaining table not on the streets of Trinidad and Tobago. But we shall bring in a multi-stakeholder conference which we are now putting together all the groups to do two things: to come and explain to the nation what the true situation is and what the true possibilities are.

Secondly, to engage them in a serious dialogue as to how we can move forward, remove the clouds, see the blue sky and start the recovery process again. That is where we are. That is how we intend to bring economic logic and political logic in a new synthesis. That is how we intend to promote your idea of good governance and your commitment for responsible governance in Trinidad and Tobago.

Thank You.