

Speech by the Honourable Winston Dookeran,
Minister of Finance of the Republic of Trinidad and Tobago
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“Drilling down on development”

Thank you very much Mr Anthony Pierre, President of the ICATT and Mr Allan Bierzynski, Chairman of the CAACM.

It is always intimidating to speak to an audience which has former Ministers of Finance. I would like to specially acknowledge Selby Wilson and Christine Sahadeo, past Ministers of Finance of Trinidad and Tobago and all the members of this very impressive audience here this morning.

My understanding is that the Caribbean Association of Audit Committee Members and the Institute of Chartered Accountants of Trinidad and Tobago have joined together today to explore over the next three days the critical issues in improving the performance of the accounting profession in general and specifically for those who are engaged in the Audit Process.

I was very excited with the theme of the Conference and I knew I had to meet those bold persons who are trying to “add value and not bureaucracy”. I am sure that over the next few days you will develop your own approach to dealing with that issue.

Today, I would like to place the accounting profession in the context of our region’s challenges for economic change and then deal with some of the key issues that obviously affect you and affect us from the point of view of public policy and decision making. One of the things that always intrigues me when I speak to professional groups is the synergy between what is referred to as macro strategy and the performance of the micro enterprise in that particular area and the disconnect between both – one of the gaps that needs to be filled. The synergy between both institutions would overwhelm us in relationship to the larger goals we are dealing with. So I will say just a few words on the macroeconomic strategy and the change in economic paradigm without going into great depths. Many of you would have followed this theory with even greater precision over the years.

Firstly, I refer to the days of Arthur Lewis and others who spoke about industrialisation by imitation, the immediate post-colonial period. Back then, there was a certain way of looking at how we can generate development of our country and the region, but that soon led to another group of thinkers who can easily be classified as those who were in search of economic nationalism. This was in response to the

demands of the people that they must spread the change of independence status. People like William Demas, Greg Rampersad from Trinidad and Tobago and Norman Girvan from Jamaica and including others, were strong components of the philosophy of economic nationalism. And in that context, the role of the State became a very dominant driver in the process of economic change. By the mid 80's that too seemed to fail to deliver the expectations of the people.

Then came the emergence in the region the appearance of a 'market –determined' economic strategy and the new relationship between the market and the State began to take shape. And this led to professionals, a very fertile area of Risk Management. How do we do it? How do we mitigate the risks ahead of us? These professionals began to play a very strong role in macro management. And by the turn of the century, while risk management continues to be an important tool at your disposal (and this now is an interpretation of what is happening) the risk management tool has not been able to deliver the goods that people expect in development and growth. This raises the question of the limits of risk management as a national economic strategy.

It is actually essential to go through all the methodologies to ensure the highest level of risk management but it is clearly not a substitute for a deep economic strategy. I'd like to believe at this point in time that that the limits to risk management techniques in macroeconomic management have now been reached. There are many risk management challenges, especially those challenges that are faced by the developments of the world around us and also because of the inability of institutions to perform adequately. So we have a very important task in trying to shape the requirements of development and growth. It is in that context, that I have recently been enunciated with the view that we must now return or perhaps revisit the whole notion of endogenous growth in Trinidad and Tobago in particular and I have no doubt that the challenges may be more severe in the rest of the region.- perhaps something we can look at.

On a local context, I refer to "drilling down on development". Much of which has to do with the issue of the methodology by which we analyze, diagnose, predict, as well as prescribe. This is really a challenge for the professionals and all members of the society for we are accustomed doing a fair amount of analysis on diagnosis and very little commitment on prescription. Drilling down on development means to shift from diagnosis to prescription. And that would be one of the key aspects of the methodological challenges facing professionals like accountants and others. Another challenge, has to do with execution. By *drilling down on development*, I think we will be able to execute whatever has been agreed upon to be the right policy direction.

So today, I believe the profession and indeed the region has been faced with a new challenge of ensuring that the *methodology for prescription* is enhanced, systematic and likely to bring about solutions and of course, deal with the issue of execution. This has posed limits to the mantra of Risk Management. At the Corporate Governance Seminar sponsored by the Ministry of Finance and which took place this morning, the main speaker spoke on Risk Management. Although I am not denying the importance of that, I am saying that it should now be related to the framework that is **endogenous development**.

It is in this context therefore that I raise with you, almost in a provocative way, what are in fact the limits of risk management in today's economic management. And indeed what we do at the global macroeconomic level, it must translate into the microeconomic performance of our institutions. So as we try to close the gap to what the country is trying to achieve and what your specific functions are likely to be, it is important to look at the limits of risk management in today's world. We measure these against deliverables, we measure against the expectations of our people and therefore it is in this context that we may have to go back to:-

- the fundamental concepts of growth and development,
- capital accumulation,
- some of the fundamentals of productivity and choices before us and
- the fundamentals of endogenous growth.

I say this, because I thoroughly believe that development cannot be imported and while I believe there is an important 'imported' component in development, in the final analysis development is really owned by the people of the nation. And therefore it is important to devise a way in which we can bring about this development - this new paradigm. I have no doubt that this would become an issue for discussion at the academia and policy levels and also at the professional level.

Secondly, looking at our challenges today has a lot to do with what *you*- ICATT AND CAACM- refer to as "adding value and not bureaucracy". I think I understand what you mean by that because to some extent bureaucracy has become equivalent to control when bureaucracy should in fact be equivalent to performance. We have somehow developed the bureaucratic systems in our country that are more focused on control rather than performance- and by performance I mean output. There is a real challenge therefore, to not do away with the controls required but to shift it to a better controlled bureaucracy; trigger the controls as opposed to the outputs. It is a huge undertaking but not one that we can escape if we are to *drill down on development*. It is an undertaking that I believe organisations like the accounting profession will have an important role to play.

VAT

Let me for instance refer to a matter that is very close to me as Minister of Finance and it has to do with the issues of collection of taxes. We did introduce in the last budget a proposal to establish an amnesty to encourage payment of outstanding taxes to meet the demands of the state. I had a very simple role and I was told by Mr. Anthony Pierre, President of ICATT a few moments ago, that his policy is to keep it simple. And keeping it simple means that if the government owes you money, then the government must pay that money and of course if you owe the government you must pay the government as well. That is the fundamental basis by which tax reform is taking place.

It is now public knowledge that the tax amnesty was successful. It is also important to note however, that the collection of VAT continues to be a real problem. I believe many people who collect VAT, do not

realize that they are doing this in trust. Mr. Pierre suggested having a special account for VAT as they (ICATT) do in fact collect VAT on behalf of their clients (so it does not affect cash flow problems for companies down the road) The evidence says that VAT collection has decreased and it was suggested that it is in fact so - People don't remit what they collect. I think it's a big professional challenge as accountants to advise people on taxation matters-for the national interest- so that the performance of the enterprise would be consistent with the macro objectives of this feat.

International Best Practices

I would also like to touch on the adoption of best practices. Many times we use international standards for best practices as the benchmark. International best practices have been subject to scrutiny over recent times and to some extent they have been the cause of some of the problems we saw in the global economy that affected all of us in the region. Therefore, we cannot rely on international best practices to the extent that we use them as benchmarks. What we need now are new practices developed using the failures of the best practices in the past and the device that is required in today's very complex financial world. For development, this will ensure that there's a synergy between the microenterprise performance and the macro objectives – a redesign of best practices in the context of our region and our experiences.

The reliance on best practices do not work. I have had the opportunity to explain that to the many international rating agencies that come to us. In discussions with them I have said that we cannot rely on rating agencies that have failed in the global economy, because the practices they employed have cause for suspicion. We have undertaken the responsibility to change that and we must not be sitting down accepting it. Dialogue is also important.

Functions of the Audit Committee

An interesting area that has developed has to do with the functions and performance of the audit committees. Audit companies are indeed important instruments that will assist in the effective performance of enterprises. And I had the opportunity to say this as well at the Corporate Governance Seminar this morning that the role of the Audit Committee is critical in ensuring compliance. In addition to that, the scope of the work of the audit committee is wider in the financial world, and issues which you are well aware of like "Value for Money" and issues of the efficiency of the investment strategy have now become matters within the remake of Audit Committees. It means new responsibilities for your Association to embrace that additional scope.

Recognition

These are some of the key areas that have emerged but one that is very important has to do with the question of recognition. Perhaps it can be said that in response to the failure of recognition there can be a tendency to have more recognition. The failure of the recognition of the financial sector in the 2008/9/10 and as I read what's going on now -the ripples of 2011, doesn't mean that the failure of the global regulatory system has to be replaced with additional regulations. There is an optimal level of regulation that a society must arrive at. The level of regulations that will ensure that there is incentive

for production and outputs; regulations that intends to protect the public interest even if it has to compromise the interest of the private enterprise. These are some of the principles that we must now use to arrive at the optimal level of recognition in our country. And these are all but evidence of the concept of *drilling down on development*; about dealing with the issues of methodologies; and the issues of execution. I raise these issues to emphasize to your profession that there are limits to the methodology of risk management. The issues raised here are but a few of the issues that will be discussed and on your agenda.

Good Governance

All this falls within the rubric of good governance. *Good governance might soon become a cliché that means everything to everyone and therefore nothing to anyone.* Being an economist, I have the tendency of analyzing everything in the context of supply and demand. And if I view good governance in the context of supply and demand, there will only be a supply of good governance if there is a demand for good governance. Therefore the demand for good governance is what we must focus on. It is the increasing demand for good governance that will hold governments accountable; enterprises accountable and institutions accountable. Fortunately, the demand for good governance is now emerging from the citizenship and the region and the expectation of good governance is expected to increase even more. The gap between the supply and demand of good governance is one that we must close. The political environment in which we operate makes it a necessity.

It is therefore in the context of filling the gap that I call on you to (what I loosely call) *drill down on development*. To do so, it is necessary to look at the roll of the state. The roll of the state has always been a very dominant factor in the economic growth and development of almost all Caribbean Countries and certainly in the case of Trinidad and Tobago. It is no secret that the role of state itself has begun to shift. A shift from an era where there was ownership of production to an era where there is regulation of that production. I don't think that that shift was the right shift or certainly, it may have been the right shift for that particular time. In today's society though, there is a different dimension that needs to be looked at. And it is that the role of the state must in fact be catalytic as opposed to regulatory or as opposed to ownership. This requires not *less state* but maybe *more state* but certainly a better quality of state intervention. It is the catalytic form of the state that has transformed the thinking of Trinidad of Tobago with respect to the development thrust ahead of us. We must therefore, now look at the macro paradigm in the context of the changing role of the State. And in your assessment of the Macro enterprise there must indeed be an assessment of the shifting expectations of the role of the State.

I am raising these issues in a very broad context as I know that you will be dealing with many of these aspects at this conference over the next three days. It is important for the region as a whole to look at the issues. All of this adds up to the fact that we are now at the beginning of *new thinking*.

The last time the region deliberately embarked on a development approach was probably in the last 60s. Events since then has always overcome structures that we have put in place and that is why today CARICOM cannot serve today's and tomorrow's interest of our economy. Events globally have overcome

the structures that were put into place. In the 60s they worked, but today those structures have outgrown their usefulness and so there is a need now for another view in the integration movement. The shifts in global political powers today also account for this. The gap needs to be filled. I don't think anyone of us here, as professionals, would like to carry on doing things the same old way with the expectation of getting different results when the structures around us have changed.

The voice for Small States

It is for these reasons that I as Minister of Finance and on behalf of the Government of Trinidad and Tobago, took an initiative recently - when the opportunity arose for the change of leadership of the IMF- to put in place more ***presence and political direction for small states*** as opposed to more attention. We have received some positive responses thus far. Being selected as the new managing director of the IMF I was comforted by the other candidates' words.

What are not searching for objection to small states- and indeed this is one of the things we have to do- but we are searching for a voice in the political order in the international financial architecture that must emerge with the new global changes. The region as a whole cannot sit back and remain silent while the global architecture reflects a new set of emerging countries. I do not only use the term *small states* in terms of numbers but in terms of influence and voice in that system. We hope that we can secure the necessary diplomatic support in this new area and we – the government of Trinidad and Tobago- will continue to strive to make our voices heard in these international quarters. And of course, we will be doing this with the collaboration with our sister Caribbean countries. We will go beyond the Caribbean as well, to the small states in other parts of the world, as we are an advocate not only for the Caribbean but for ALL small states.

CLICO

I raise this, to emphasize that what we do at home and the homework we do at night is always linked to events way beyond our borders. When I looked at the debates that are taking place in the United States at the moment with respect to their fiscal deficit and debt ceilings, it is almost as if those debates should be happening here in Trinidad and Tobago. We too have been faced with the fiscal challenge of dual deficits ever since the economy started to decline in 2008- largely a result of international developments- but equally important it was a result of the ineffective way which we handled the Clico fiasco. It ought not to have happened in the first place. We are now haunted by decisions that were made for the two risks that existed.

1. The Statutory Reserve Fund and the
2. Cash Flow risk at one of the subsidiaries

It was allowed to become a systemic risk rather than a risk within the confines of the two parts of the system. And so today, the Clico fiasco has affected the GDP of Trinidad and Tobago to the extent of over 10%, according to a recent study and I believe it may be more. And with respect to the Caribbean- over 17%. These are enormous shocks for small economies like us. In Trinidad and Tobago we have been able to work out an approach to deal with that problem. So far we have had much public support- as silent as

it may be- from the 9000 people who have already received the basic security of \$75,000.00 and under and the persons who have accessed the compassionate relief fund. So we will soon get the necessary Cabinet approval to issue the bonds of which I would have spoken about in the last budget. Just for clarity, I wish to reiterate that the 20 year bonds have nothing to do with the view that you have to wait for 20 year. These bonds are spreading the debt of the country over a 20year period. Once these bonds are in fact issued, they can be redeemed in the financial sector albeit at a discount rate. And that is where the issue is now. How best do we give the most effective discount rate without risking the debt profile of the country?

These are the real challenges of public policy management and the United States today are engaged in similar discussions. Imagine the strongest nation- in economic terms- had to face a tremendous debate of choices. Choices such as: should they raise taxes or cut programs? Sometimes we do not understand how these international developments affect us or how we ourselves have been protected by economic financial management. For if our alternatives were to cut our entitlements or indeed raise taxes then we are faced with real choices as we decrease our debt ceilings. Think about it. The United Kingdom is thinking of reducing pensions and Greece is on second bailout which is unlikely to work and now the possibility of contagion of the debt crisis to Italy and Spain. These developments cannot be ignored. We are able to package our fiscal equation in such a way that we have retained international ratings, notwithstanding what I said about the scrutiny of these ratings. We have managed this even with inheriting indebtedness in the following areas.

- Clico
- Wage negotiations
- Construction sector
- Tax refunds
- Bank indebtedness
- Fuel Charges for Petrotrin

When you add these debts you will understand how in fact we have escaped the problems which have been taking place in the United States and still we are able to maintain our social sector investment programme. I am convinced today as I was convinced a year ago that the path we have undertaken in Trinidad and Tobago is the path that will create stability for long-term growth and will ensure that we have the basic conditions required for drilling down into development.

So Mr. President, I say all this because as professionals in society we have to play a role in developing solutions on a microenterprise level. Our sister countries in the Caribbean have been facing equal challenges and we have begun discussions with the Caribbean Development Bank about these challenges.

I am very happy that you have given me the opportunity to come and share with you some of these thoughts as we shift the paradigm. Thank you for the opportunity.

