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SELECTED ISSUES

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October 4, 2017

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Western Hemisphere Department

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CONTENTS

REFORMING PUBLIC BODIES: CHALLENGES AND REFORMS[1]

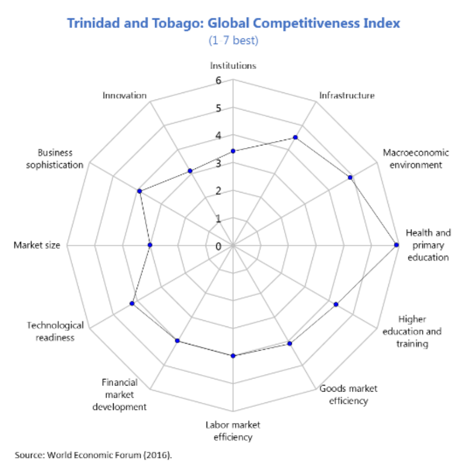
Public Bodies (PBs) represent a source of fiscal risk to the Government through the generation of financial losses, with current and capital transfers from the central government to PBs amounting to 3.5 percent of GDP in FY 2015/16. Inappropriate pricing policy and weak governance are the most prevalent sources of fiscal risk. Public disclosure of fiscal risks helps policymakers to manage budget vulnerabilities and thereby can improve economic efficiency. Having an overall plan to reform public bodies is critical to reducing fiscal risks and enhancing resource allocation.

1. The objective of this paper is to review the Public Bodies (PBs) landscape, performance and reform plans. The analysis of SOEs is based on a rich firm-level dataset (1999-2016), provided by the Ministry of Finance (MoF). The paper is organized as follows: Section A provides a topography of PBs (including governance structure and institutional arrangements) in Trinidad and Tobago; Section B assesses PBs' financial performance; Section C presents recent reform experiences; and Section D draws overall lessons for policy implications.

A. Topography of PBs

2. PBs are comprised of two types: state-owned enterprises (SOEs) and statutory bodies (SBs). SOEs are established under the Companies Act (Chapter 81:01) with the express objective of supporting the Government's policy for the sector, while SBs are formed by statutes that are approved by the Parliament. SOEs operate, and have the same powers as any other private sector company. The SOE sector is comprised of 60 companies (Annex I): 48 wholly owned; 7 majority owned companies; and 5 minority owned companies.[2] There are 7 SBs, each of which provides key public sector services, (e.g., airports, electricity, water).

3. PBs play a significant role in the economy, operating across many sectors including several strategic areas. Since national independence in 1962, the Government started establishing PBs as part of an import-substitution strategy, and to address market failures. These entities operate in the gas and oil industry, infrastructure development, banking and financial services, manufacturing, transport and communication, training, tourism, agriculture, information technology and the provision of social services. Further, the SOE sector contributes to the economy through foreign exchange earnings, employment, dividend payments, and taxes. Despite



[1] The author is grateful to the authorities, Elie Canetti, and Jim Colvin (external advisor to CARTAC) for the helpful comments. Research support was provided by Lulu Shui.

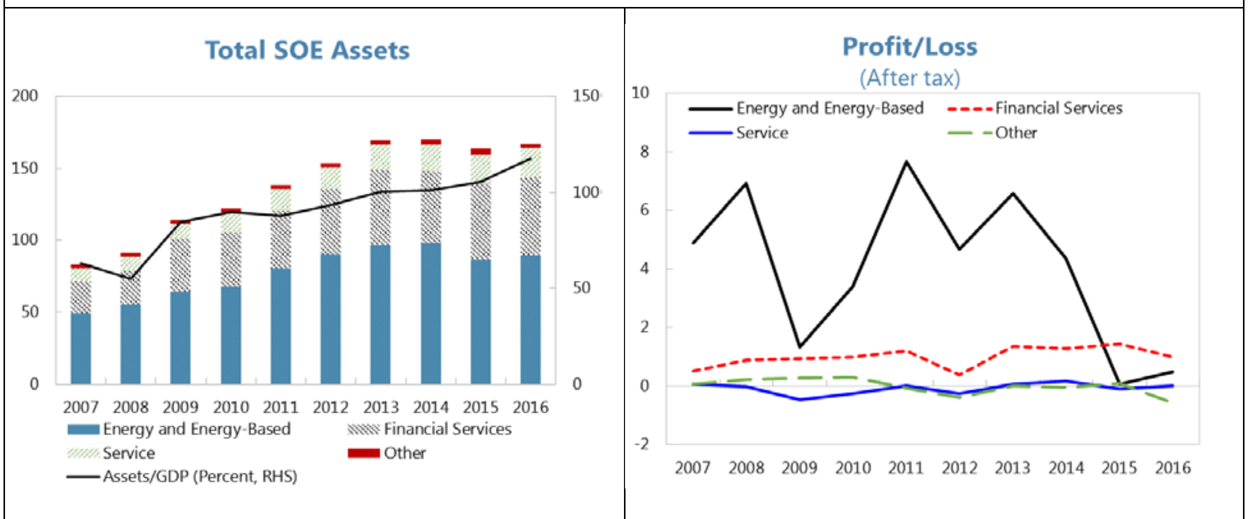
[2] There are also 51 indirect ownerships, in which SOEs wholly or partially own some other companies.

operating across key economic sectors, it is not clear that SOEs have improved the competitiveness of the country based on recent Global Competitiveness Index reports.

4. **The size of the SOE sector has increased rapidly over the last decade (Figure 1).** Total SOE assets almost doubled during 2007-2016 in terms of GDP (to 120 percent of GDP), reaching around TT$ 170 billion (US$ 25.5 billion). The Government's equity holdings in SOEs totaled TT$ 14 billion as of end-September 2016. The SOEs' profitability has dropped sharply since 2014, especially for the energy sector, with the return on assets (after taxation) being about 0.5 percent for FY 2016 due to an unfavorable environment for commodity prices and inefficiency in some SOEs.

Figure 1. Trinidad and Tobago: SOE Assets and Profitability

(In billions of TT$, unless otherwise stated)



Source: Ministry of Finance and IMF staff calculations.

5. **There is a clearly delineated governance structure between SOEs and the Central Government as well as clearly delineated roles of the various parties involved in managing SOEs.** While the Investments Division at the MoF is responsible for corporate governance, line ministries determine the day to day operations of SOEs according to each line ministry's policy mandate. Figure 2 describes governing bodies at different levels. In particular:

- The ***Cabinet***, under the principle of collective responsibilities, exercises shareholder rights and the responsibilities of Line Ministries with respect to SOEs. It is accountable through Parliament to the public with regard to the management of the investments of the State.

- The ***Minister of Finance*** acts as a Corporation Sole (i.e., is a legal entity consisting of a single incorporated office, occupied by a single natural person). In executing his corporate functions, the Minister is supported by the Investments Division at the Ministry of Finance (MoF).

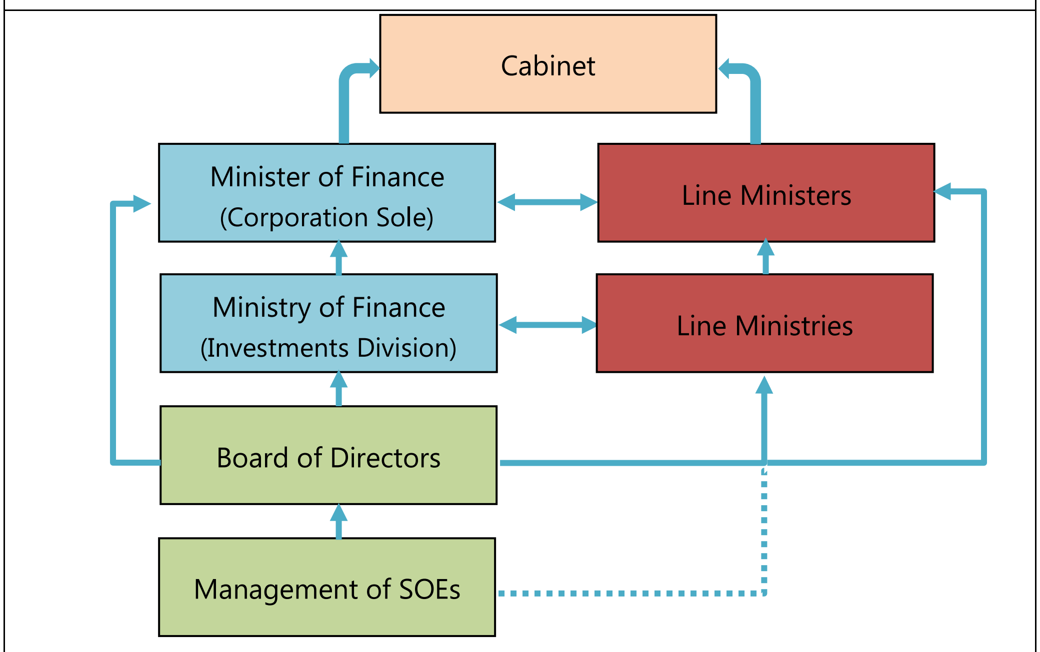
- The ***Investments Division*** is responsible for executing the investment policy as prescribed by Cabinet. Accordingly, the mandate of the Division includes oversight, monitoring and, where necessary, the rationalization (i.e., maintenance or selling) of the Government's equity holdings in commercial enterprises. The Division acts on behalf of the Minister of Finance (Corporation Sole) and carries out the corporate function. This includes representation of the Minister at shareholders' meetings, establishment of new Enterprises and rationalization (i.e., divestment, restructuring, mergers and liquidation) of the investments portfolio of the shareholder.

- ***Line Ministries*** determine the day to day operations according to the policy mandates of SOEs, including: technical supervision of the planning, monitoring and evaluating of projects, implementing plans and programs, and ensuring that State Enterprises adhere to the Sectoral policy guidelines of the Government. Further, the line ministry and the Minister of Finance closely collaborate in several areas, with key among them being consistency with macroeconomic policies, strategic plans, and communication policy.

- The ***Board of Directors***, which is the highest governing body inside the legal structure of an SOE, directs the management of the business and affairs of the SOE.

- The ***Management*** is responsible for implementing the strategic objectives established by the Board.

Figure 2. Trinidad and Tobago: SOEs Governance Framework



Source: State Enterprises Performance Monitoring Manual (2011) and IMF staff.

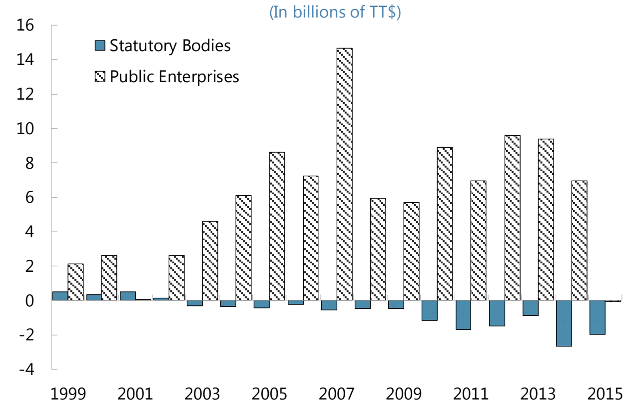
6. In terms of transparency and accountability, SOEs publish audited financial statements for public information. They are required to publish such statements in at least one major daily newspaper, subsequent to their Annual General Meeting. Further, the Investments Division produces quarterly and annual reports on the financial performance of PBs more broadly; however, such reports are not published.

7. The operations of PBs have a direct impact on public finances. Revenue received through dividends and taxes from SOEs are paid to the Treasury. Though all profitable SOEs are required to pay dividends up to 100 percent of distributable profits, the actual distributions of profits are to be agreed with the Minister of Finance and appropriately disclosed in the financial statements.[3] The SOEs also receive capital and current transfers, and subsidies from the State Budget, to meet: capital expenditure programs, equity injections, debt servicing, and deficit financing. Considering other expenditures by economic classification based on the IMF's Expenditure Assessment Tool, transfers account for over 50 percent of total government expenditure.

B. Financial Performance

8. While PB performance has been satisfactory in a number of cases, it has been suboptimal for many SBs. In aggregate, the SOE sector contributed positively to government revenue through FY 2015. However, since FY 2004, SBs (except Telecommunication Services of Trinidad and Tobago Limited (TSTT)) have been loss-making entities. For FY 2015/16, the operating deficit for PBs totaled around TT$ 2 billion (1.4 percent of GDP), with public utilities accounting for 95 percent of the deficit given their high cost structure. On the other hand, energy companies mostly ran surpluses, apart from Trinidad & Tobago National Petroleum Marketing Company Limited (NPMC).

Operating Net Surplus/Deficit
(In billions of TT$)



Sources: Ministry of Finance and staff calculations

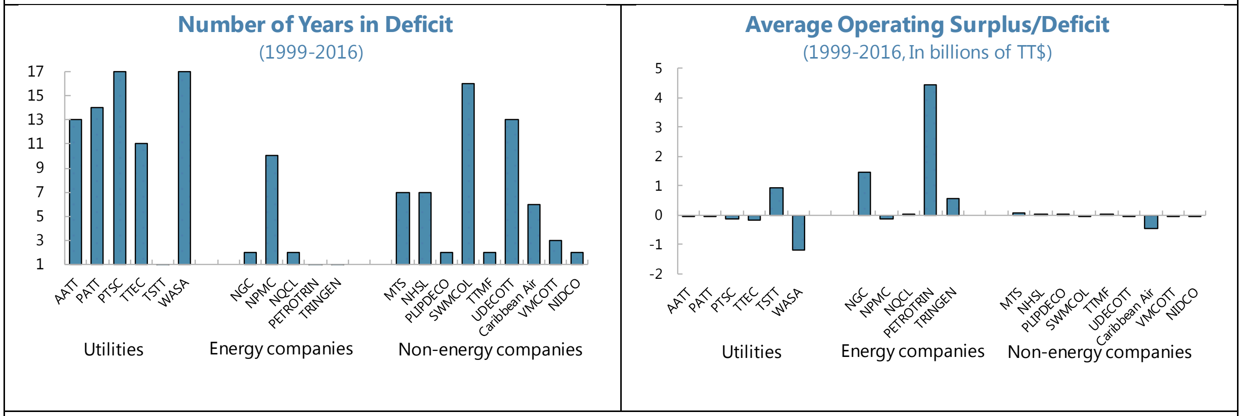
9. Financial performance varies across PBs (Figure 3). Except for TSTT, public utilities have frequently run deficits since 1999. Among these public utilities, the Water and Sewage Authority (WASA) accounted for 72 percent of the total net operating deficit incurred by SBs in FY 2016, followed by Trinidad and Tobago Electricity Commission (TTEC) accounting for 16.7 percent. For energy companies, NPMC ran deficits in 10 out of 17 years. Financial performance is mixed among non-energy and non-utility companies.

10. Only a few SOEs have been regularly providing dividends to the Budget (Figure 4). Dividend payments to the central government increased sharply during 2011-2016, amounting to around TT$ 19.5 billion in aggregate. Up to 2010, only 2 companies paid out large dividends: The National Gas Company of Trinidad and Tobago (NGC) and Trinidad Nitrogen Company Limited (TRINGEN).[4]

[3] SOEs with retained earnings in excess of working capital requirements may be required to pay a special dividend in excess of dividends generated in a particular year.

[4] TRINGEN's dividends are paid through National Enterprises Limited (NEL), which is owned by the government to consolidate the government's shareholding in selected SOEs.

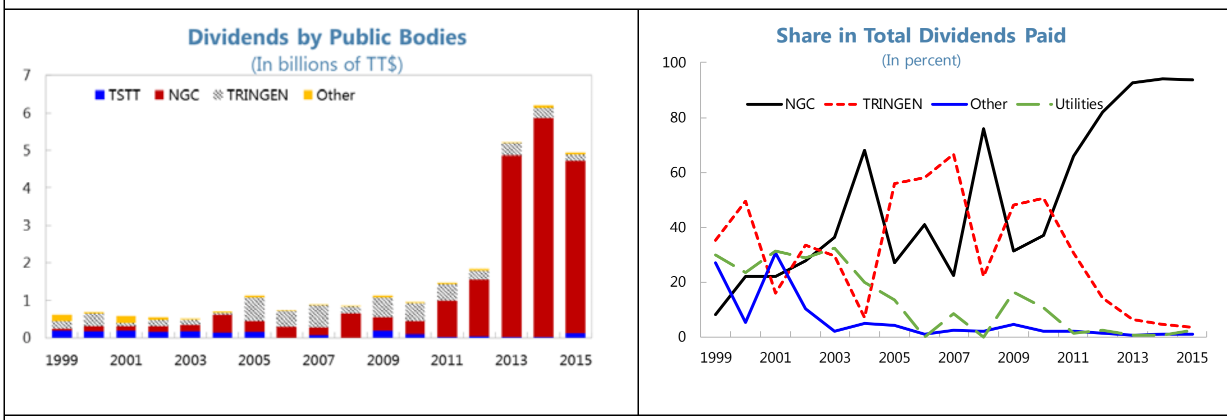
Figure 3. Trinidad and Tobago: Operating Surplus/Deficit of Public Bodies



Source: Ministry of Finance and IMF staff calculations.

11. NGC has been providing the bulk of these dividends to the government (Figure 4). Their dividends increased from around just TT$ 350 million in 2010 to TT$ 4.6 billion in FY 2015/2016 (over 3 percent of GDP). These "super-dividends" are funded out of retained profits (i.e., equity withdrawals). Dividend payments from the NGC were lower in FY 2015/16 reflecting the depressed gas prices that negatively impacted the company's revenue base. Such super-dividends are unsustainable over time.[5]

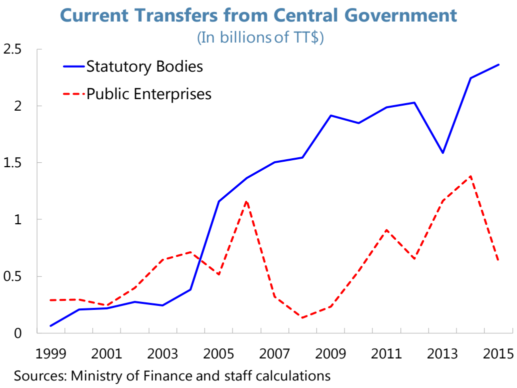
Figure 4. Trinidad and Tobago: Dividends of Public Bodies



Source: Ministry of Finance and IMF staff calculations.

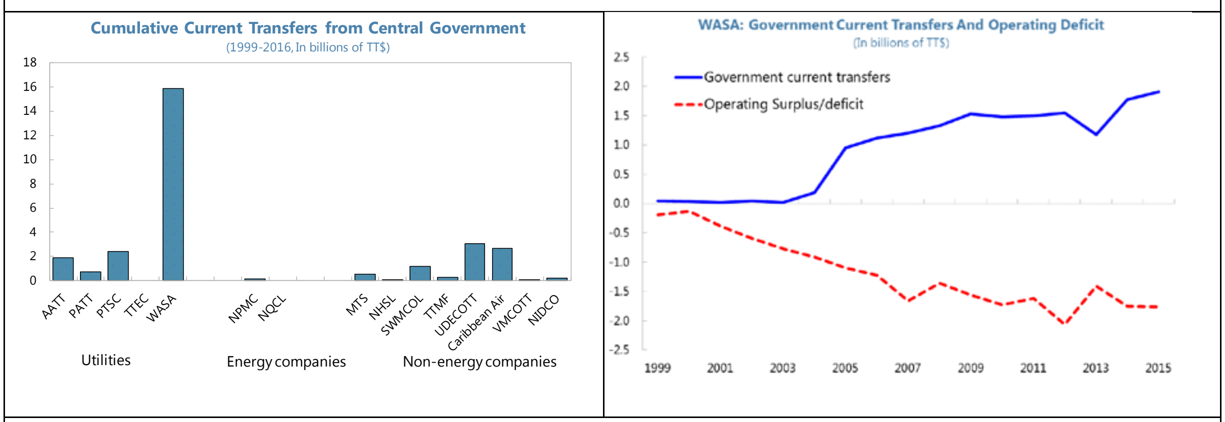
[5] Super dividends are recorded as a source of financing according to GFSM 2014. Only dividends that are paid out of the current period's operating surplus are considered as revenue. Based on NGC's 2015 financial statements, such super-dividend distributions, at their recent pace, could last for around 4-5 years based on the current level of retained earnings.

12. Government current transfers, especially transfers to SBs, are increasing rapidly, imposing fiscal pressures. Current transfers to SBs increased from less than TT$ 250 million in 2003 to around TT$ 2.5 billion at end-September 2016 (1.7 percent of GDP). For FY 2015/16, the current transfers from central government to PBs as a whole amounted to around TT$ 3 billion (2.1 percent of GDP), with public utilities accounting for 80 percent of the transfers. Further, Government servicing of the debt of public utilities comprised about 40 percent of current transfers from Central Government.



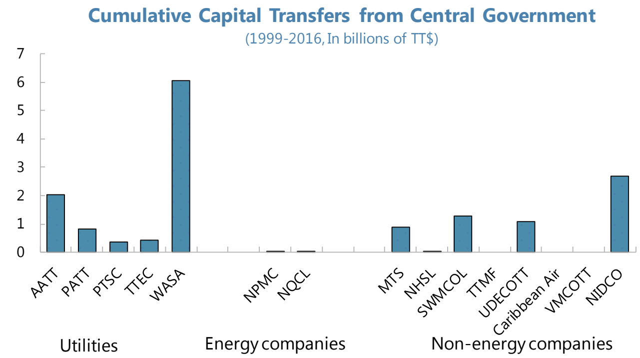
13. The Water and Sewerage Authority (WASA) and Caribbean Airlines Limited (CAL) have received the bulk of current transfers from the Central Government (Figure 5). The accumulated transfers to WASA since 2000 are around TT$ 16 billion, while CAL has been loss-making in the FY 2011-2016, with the company having started its operation only in 2007. WASA's financial situation is chronic, with annual net operating losses averaging around TT$ 1.5 billion in last decade. For FY 2015/16, WASA received 63 percent of the total allocation of current transfers from the government, which was related mainly to increasing operating deficits over the years, stemming from the company providing services at below market prices.

Figure 5. Trinidad and Tobago: Current Transfers from Central Government



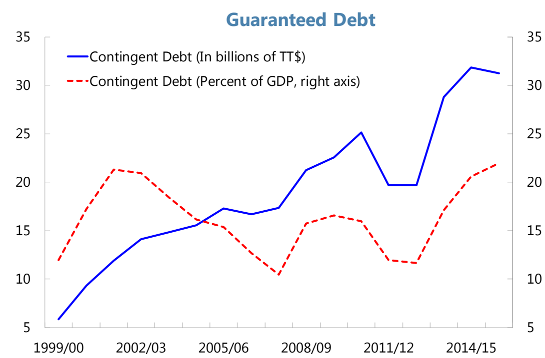
Source: Ministry of Finance and IMF staff calculations.

14. In addition, capital transfers from the Central Government are an important element of support for many PBs. Capital transfers include largely payments for developmental program activities, but also loan principal repayments by Government on behalf of the enterprises. Among SBs, WASA accounted for the largest portion of capital transfers, while the National Infrastructure Development Company Limited (NIDCO) was the major receiver of capital transfers among SOEs.[6] For FY 2015/16, capital transfers from the central government to PBs totaled TT$ 1.3 billion, with SOEs accounting for around 50 percent of that total.



Source: Ministry of Finance and staff calculations.

15. The government regularly guarantees the borrowing of PBs; however, there is no formal Government Guarantee policy (Box 1). Government guarantees are initially issued to PBs in the form of letters of comfort and are eventually replaced by formal guarantee documents. The Government reports the guaranteed debt as a contingent liability that is included as part of the Total Public Sector Debt.[7] During 2006-2016, guaranteed debt represented around 40 percent of total public debt on average. As of end-December 2016, guaranteed debt reached about 21 percent of GDP (TT$ 30.3 billion), about 95 percent is in the form of borrowing from the domestic debt market. Nonetheless, the MoF neither submits prior notice of proposals for Government-guaranteed borrowing to the Cabinet nor assesses such proposals with regard to capacity to repay the debt. Once approved by the Cabinet, the MoF merely issues the loan documentation.



Sources: Ministry of Finance and staff calculations.

16. Several SOEs have large and increasing arrears among them. This has a detrimental effect on other SOEs, especially for financially constrained firms. When SOEs (e.g., T&TEC and WASA) finance their deficits via arrears to other PBs, this increases the fiscal burden on the state budget through the need for higher government transfers to these PBs.

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[6] NIDCO and UDECOTT will always require transfers given their operating structure, as they have been established to execute state projects and do not earn revenue *per se*.

[7] Guaranteed debt is not considered in the annual budget planning process.

Box 1. Trinidad and Tobago: Government Guarantees to Public Bodies

Historically, Government Guarantees have been used in two circumstances: (i) to support revenue-generating Government entities in accessing affordable financing; and (ii) to channel funding to special purpose companies to implement projects on behalf of Ministries outside of the Central Government budget process. With few exceptions, debt financing decisions of the Government entities are often driven by the entities themselves or their line Ministries and are largely outside the control and guidance of the Ministry of Finance. Also, there is no fee for issuing a guarantee by the MoF.

The Government is guaranteeing debt of public entities that are ineligible to have debt securities registered by the Trinidad and Tobago Securities and Exchange Commission (TTSEC) because those entities are unable to provide current financial statements. Thus, the government is effectively taking on a significant credit risk. Lenders are reluctant to extend term loans to these entities, therefore the debt portfolio of a number of these entities is comprised of a significant portion of short-term 'bridging loans' from the banks, some of which are rolled over repeatedly.

In cases where the Central Government guarantees the debt of public bodies that have no capacity to repay the loan on their own, once they start servicing the debt on behalf of PBs, the debt then becomes part of the Central Government debt. Furthermore, while capital expenditure funded from loans guaranteed by the government is reflected in the State Enterprise Investment Program that accompanies the other Budget documents, other expenditures funded by the guaranteed loan are off-budget and therefore do not go through the same process of prioritization and public scrutiny as other Central Government expenditures.

Currently, the Guarantee of Loans (Companies) Act sets an upper limit on the total amount of guarantees that can be given rather than an annual limit. The latter would ensure that new guarantees are subject to prioritization and that the growth in the level of guarantees and public sector debt is controlled.

Government guarantees can impose a substantial burden on the budget, resulting in large unanticipated cash outflows and an increase in public debt. Therefore, it is critical to develop and publish a Government guarantee policy to reduce contingent liabilities. Such a policy would include: an evaluation of guarantee proposals; quantification of risks arising from guarantees and how to mitigate them; and budgeting of guarantees.

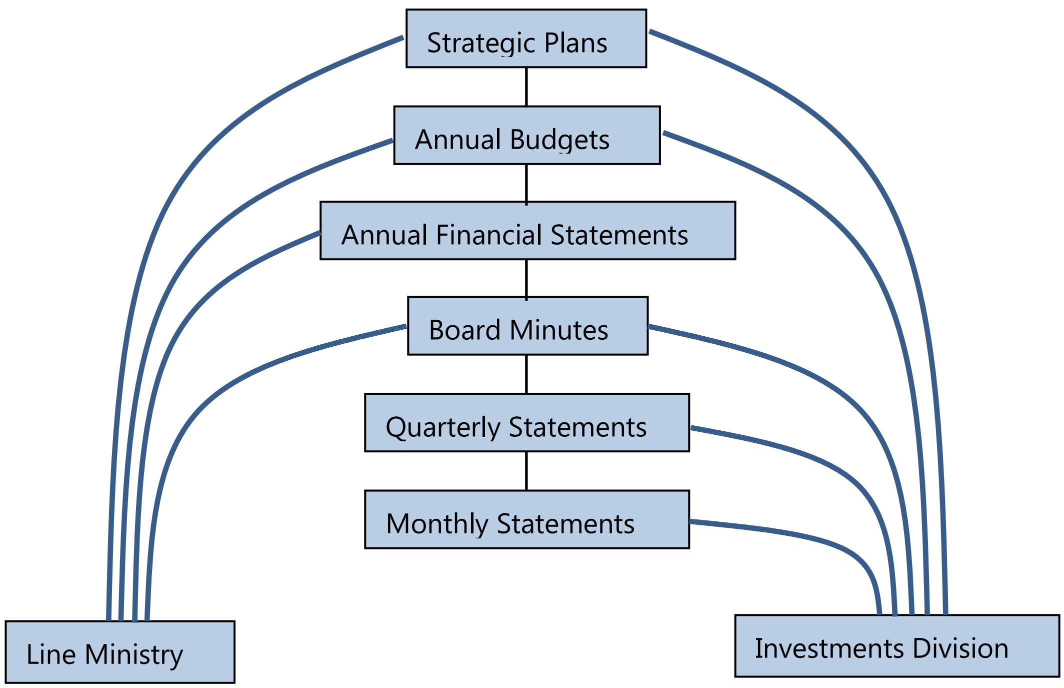
Source: Ministry of Finance

C. Current SOEs Reform Plans

17. The government has pledged to undertake SOE reforms. The significant losses accumulated over the last two decades have been compounded by weak governance structures and poor financial management practices, which have also led to poor resource allocation. As a result, the government approach aims at reducing the fiscal burden and improving resource allocation through: enhancing monitoring frameworks; liquidating unviable SOEs; restructuring viable SOEs; privatization; and engaging with strategic partners.

18. In 2011, the authorities revamped the State Enterprises Performance Monitoring System (SEPMM). The objective of the SEPMM is to facilitate the Government's goal to enhance efficiency and effectiveness in the SOE sector. The Investments Division collects and analyzes performance indicators submitted by the SOEs to both the line ministry and the Investments Division (Figure 6), such as strategic plans, periodic financial statements, and Board minutes. It then prepares financial evaluations of the SOE sector and quarterly reports (including forecasts), and makes recommendations to the Finance Minister to carry out corporate functions.[8]

Figure 6. Trinidad and Tobago: SOEs Performance Monitoring



Source: State Enterprise Performance Monitoring System (2011)

19. In 2015, the government commissioned independent credit ratings of selected SOEs. Those SOEs were assessed by the Caribbean Information and Credit Rating Services (CariCris) in an effort to prepare those enterprises for accessing the debt markets, based on their own creditworthiness. In addition, such credit ratings promote the enhancement of governance and performance within the SOEs.

20. Most importantly, the government aims to restructure Petrotrin (Box 2). The sharp fall in oil prices has negatively affected Petrotrin' s finances, with revenues declining by over 50 percent between 2012 and 2016. The government appointed a seven-member committee—comprising representatives from the public sector, the private sector, and trade union—to conduct an independent review of the operations of Petrotrin and identify cost-effective measures that will enable the company to meet its financial obligations without government guarantees. The committee submitted its recommendations to the government in June 2017, among them:

[8] The Investments Division also prepares SWOT analysis (Strengths, Weaknesses, Opportunities, Threats).

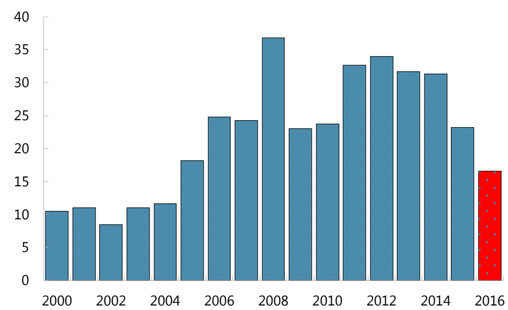
- **Corporate governance:** the members of the Board of Directors will be selected through a process which provides for comprehensive and transparent input and feedback from key stakeholders to ensure that members possess the relevant experience and capabilities to address priority matters critical to the transformation and sustainable development of the company.
- **Organizational structure:** To enable the Executive and Senior Management to focus on strategic and operational responsibilities of managing profitable business for which they will be held accountable, the committee recommended establishing three operationally independent business units, namely: Land exploration and production, Refining and Marketing, and Marine Operations.

Box 2. Trinidad and Tobago: Recent Developments with Petrotrin

Petrotrin was incorporated as a wholly owned state company in 1993. It has an integrated business with an extensive and diversified portfolio of exploration & production, refining, and marketing & trading. The total assets of the company were valued at TT$ 11.4 billion as of end-September 2016.

The company's financial difficulties were caused both by external factors (relating to global energy markets) and internal factors (cost structure and liquidity position). The sharp fall in oil prices since mid-2014 has negatively affected Petrotrin' s finances. A dramatic slump in crude oil prices, an ongoing decline in refinery margins, and declining local oil production led to a more than 50 per cent decrease in the Company's revenues, from TT$35 billion in 2012 to TT$17 billion in 2016, creating serious cash flow and debt-servicing problems (where debt service coverage was -1.1 at end FY 2016, compared to 0.9 for FY 2014). Therefore, the Company had to reduce expenditure, including cutting back its drilling. Despite all of this, the operating surplus declined from around TT$ 6.8 billion in 2012 to TT$ 1.2 billion at end FY 2015/2016.

Petrotrin Revenue
(In billions of TT$)



Sources: Ministry of Finance and IMF staff calculations.

Moody's downgraded Petrotrin' s debt in April 2017 to B1 (stable outlook) from Ba3 (and compared to Baa3 in July 2009), due to a weak liquidity position and poor operating performance given a rigid cost structure. The annual wage bill of TT$1.9 billion in FY 2015/16 is close to 45 per cent of its total annual operating costs, compared to 41 percent in the year before. Without restructuring the company, Petrotrin may face financial difficulties in meeting outstanding long-term debt.

Source: IMF staff.

21. To finance the state budget, the government has sold assets through divesting its ownership in selected SOEs. For FY 2015/16, the sale of assets amounted to TT$ 3.6 billion. During FY 2016/17, First Citizens Bank's offering of 25 percent of the government's shares in the bank in April 2017 realized only 66 percent of the expected value (TT$ 1.5 billion), while the Trinidad and Tobago NGL Limited offering in June 2016 raised TT$ 845 million (57 percent of the expected value).[9]

22. The government has completed the liquidation of a few small SOEs and proposed a divestment plan for others. It completed the liquidation of the National Broadcasting Network Limited, the Trinidad and Tobago Export Trading Company Limited, and the Trinidad and Tobago Revenue Authority Management Company Limited. The government also initiated the process of dissolving a few SOEs due to redundancy in providing services and/or not being able to meet their mandate.[10] Furthermore, it has engaged private consultants to assist in the process of identifying a strategic partner for a few other SOEs.

D. Planning and Sequencing Reforms

23. There is a need for an overall plan to address inefficient or poorly managed PBs in order to reduce the drag on public finances from government guarantees, transfers, and capital injections (Box 3). Fiscal risks arise with excessive contingent liabilities, and/or a high likelihood that the contingencies will be realized. Bova and others (2016), for example, analyze a series of episodes (in advanced and emerging economies) in which contingent liabilities materialized over the period 1990–2014. The study concluded that while the average cost was 3 percent of GDP, it could be as high as 15 percent of GDP. Also, they found that public corporations were the second-largest category of fiscal risk after the possible need to rescue a country's financial sector. Therefore, the authorities should review PBs to evaluate the best mode for delivering their mandate. This means a review would extensively examine pricing, efficiency, performance, and corporate governance, including management.

24. Financial performance and management performance are inter-related and need to be addressed simultaneously. Declining financial performance is a result of both unfunded mandates (e.g., providing services below cost) and weak management (e.g. insufficient managerial independence with regard to employment decisions). While reforms related to governance and oversight can only address management performance, resolving unfunded mandates will require policy changes. In terms of reforms, the government should first address the implicit subsidies and transfers to PBs.

[9] The IPO of FCB in July 2013 was heavily oversubscribed, which raised about TT$ 1.1 billion.

[10] These included Human Capital Development Facilitation Company Limited, Caroni Green Limited, Seafood Industry Development Company Limited, Community Improvement Services Limited, Tourism Development Company Limited, Government Human Resources Limited, and Government Information Service Limited.

Box 3. Trinidad and Tobago: Assessing Fiscal Risks of Public Enterprises

The IMF Board (2005) agreed to a new set of pilots (pilot II) to directly identify the fiscal risk posed by public enterprises. Such criteria provide insight into countries' ability to monitor their public enterprises.

Managerial independence

Pricing policy. For producers of traded goods and services, were average prices over the last year within 10 percent of the relevant international benchmark? For producers of nontraded goods, are prices set to cover costs? In regulated sectors, is the tariff-setting regime compatible with the long- term sustainability of the public enterprise, and is it the same as for private firms in the sector?
Employment policy. Is personnel policy independent of civil service laws? Does the government intervene in wage setting and hiring, and, if there is government intervention, is it clearly justified by the need to address specific risks (for example, placing and/or firing staff)?

Relations with the government

Subsidies and transfers. Over the last three years: (i) has the government provided direct or indirect subsidies and/or explicit or implicit loan guarantees which go beyond those given to private enterprises; and (ii) has the public enterprise made any special transfers to the government?
Quasi-fiscal activities. During the last three years, has the public enterprise performed uncompensated functions or absorbed costs which were not directly related to its business objective and/or substituted for government spending?

Regulatory and tax regime. Is the public enterprise subject to the same regulations and taxes as private firms in the industry?

Governance structure

Periodic external audits. Are these carried out by a reputable private accounting firm applying international standards, and published? Are large public enterprises audited by a major international firm?
Publication of comprehensive annual reports. Are annual reports published, and do they include the audited balance sheets, profit and loss statements, information on off-balance sheet liabilities, employment and investment, and comparisons against other firms in the industry and against international benchmarks?
Shareholders' rights. Are minority shareholders' rights (if any) protected? What form does this protection take?

Financial conditions and sustainability

Market access. Is the cost of debt over the last three years within one standard deviation of the industry-wide average over the same period? Can the public enterprise presently borrow at rates similar to those faced by private firms without a government loan guarantee?
Less-than-full leveraging. Is the public enterprise's debt-to-asset ratio comparable to the industry average?
Profitability. During the last three years, has the ratio of operating balance to assets been significantly below the industry average? Where no relevant comparator is available, this ratio should be positive and higher than the average cost of debt.

Box 3. Trinidad and Tobago: Assessing Fiscal Risks of Public Enterprises (concluded)

Record of past investments. Can the public enterprise provide evaluations of past investments, demonstrating an average rate of return at least equivalent to that required by a cost-benefit analysis to approve new projects?

Other risk factors

Vulnerability. Does the public enterprise have sizeable contingent liabilities relative to its operating balance? Is there a currency mismatch between the enterprise's main sources of revenue and its debt?

Importance. Is the public enterprise large in some significant dimension (for example, debt service, employment, customer base)?

Source: IMF (2007)

25. The authorities should review the status and viability of existing PBs. Figure 7 sets out a matrix for determining the appropriate disposition of SOEs. Governments should take into account both the economic performance of each entity (for example, whether it is actually or potentially profitable, and whether market conditions are favorable) and its relevance from a strategic/social point of view.[11] Such a policy assessment, in turn, may depend on, among other things, the government's political orientation regarding issues such as the role of the market and state ownership. Reviews of the status of public corporations should also take account of the social context.

Figure 7. Framework for Reviewing the Status of PBs

		Policy or Strategic Relevance	
		Low	High
Commercial Viability	Low	Close down	Convert into a noncommercial government entity
	High	Privatize	Retain as public corporation, monitor closely operations and finances

Source: IMF (2016)

26. Successful public sector reform should be accompanied by an explicit scope, timeframe, and sequence of the reform process. Priority could be given to reducing the size of the PB sector as opposed to reducing the number of PB, and priority should be given initially to statutory bodies over SOEs, given the loss-making of some utility companies. This is because statutory bodies have a broader set of challenges than SOEs, touching on fiscal risk, fiscal sustainability, resource allocation efficiency, policy coordination, and accountability.

[11] The authorities need to have a very clear, specific and narrow set of criteria to define strategic and policy relevance.

27. It is critical to have strong engagement with key stakeholders. This will require the building of strong support among the various stakeholders and the public. It is important for the government to prepare an effective communication strategy that clearly outlines the objectives of a reform and its potential outcomes, and to develop a change-management plan that takes into account the views about reform from individuals or groups.

28. There is scope to increase the effectiveness of monitoring PBs' performance. Lack of consistent performance monitoring has contributed to weak performance and acted as a contributing factor to fiscal deficits. Even though PB monitoring has been carried out by the Investments Division, it still does not have power to call for remedial action that would hold PBs and line ministries accountable for poor financial performance, and thereby reinforce financial and fiscal discipline. The Investments Division is in the process of reviewing the SEPMM in an effort to foster greater transparency and accountability (including accountability for financial performance, fraud, and conflict of interest). The review should focus on enhancing analytical depth and making recommendations with clearly set targets and performance indicators.

29. Improvement in the corporate governance of PBs is a pivotal component of reform in addressing underlying macro-fiscal vulnerabilities. Given their special role as providers of key public services, improvements in corporate governance in the PB sector should help to improve Trinidad and Tobago's competitiveness, the efficiency of public service provision, and the allocative efficiency of public finances. The OECD's guidelines on corporate governance identify good practices towards efficient, transparent and accountable operation of SOEs.[12]

30. Government policies need to focus on greater cost-recovery of public services. While the government has a preference for goods and services provided by PBs to be sold at a price covering all costs, there are important instances where this does not occur (e.g., WASA). Such pricing policies create distortions in the market, often with negative side-effects such as eliminating private competitors that could provide the goods and services more efficiently. Many studies have been made of the economic effects of such subsidies.[13] The government can introduce greater competition and promote efficiency and growth by reducing entry barriers and phasing out restrictions on private enterprises that give SOEs a privileged role in providing services.[14]

31. Stress test scenarios should be utilized to assess the impact on the budget of adverse shocks affecting the performance of PBs. While PBs' financial plans approved by line ministries are subject to revisions based on different assumptions about key macroeconomic variables, no stress test scenarios are carried out to analyze risks associated with more adverse outcomes, the consequent implications for public debt sustainability and the efficient allocation of public resources according to policy priorities. This exposes the budget to financial surprises that could be mitigated and better managed by implementing a comprehensive fiscal risk framework.

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[12] http://www.oecd.org/corporate/guidelines-corporate-governance-SOEs.htm

[13] http://www.imf.org/external/np/fad/subsidies/

[14] For a small country such as TTO, there may not be sufficient economies of scale for private sector participation in some economic sectors, particularly for natural monopolies such as water and electricity distribution.

32. There is scope to significantly improve analytical and policy gaps in government reports relating to PBs. It is critical to have public, well-designed reports that summarize overall financial performance as well as provide information on individual companies. Such reports will usually encompass:

- *An overview of the sector and highlights of public corporation activities during the year,* including information on policy decisions, or transactions that had a material impact on the financial position of the sector;
- *An overview of how the government has exercised its ownership policy,* including the appointment of board members, dividend policy, organizational and governance arrangements, and the announcement of financial and public policy targets;
- *Special topics,* including a more thorough explanation of issues related to the government's ownership policy: for example, changes in the policy framework for public corporations, remuneration policy, the valuation of companies, issues of organization and management, and the impact of public corporations on government finances and the economy more broadly; and
- *Information on individual companies,* comprising a summary of their operations, abridged financial statements, and indicators of financial performance for the current year and previous years. The report should also provide a list of board members, key personnel, and auditors, as well as information on the government's shareholding and financial targets, if applicable, together with data on key performance indicators. This information could draw on a central database of public corporations.

33. There is a need to develop a capacity building and training program for staff at the Investments Division. Trinidad and Tobago has a centralized model, where both ownership and financial oversight functions are located within the MoF; however, there is scope to enhance staff skills to effectively analyze financial performance.[15] In addition, carrying out PB reforms will require a mix of expertise in financial analysis (Annex II provides examples of the specific indicators monitored by the Australian government), corporate governance, and law. Staff of the Investments Division may represent or support the representatives of the government on the boards of public corporations.

E. Conclusion

34. PBs need to become better in public service delivery and profitable. Key policies should center on creating incentives for performance, strengthening corporate governance, and improving public oversight. Steadfast restructuring of loss-making PBs needs to be implemented either through restructuring non-viable ones or liquidating them to ensure efficiency and improved resource allocation. Further, it is critical to redress analytical and policy gaps in reports relating to PBs. Carrying out PB reforms will require additional investments in capacity building and training programs.

[15] Other countries apply a more decentralized ownership model (e.g., Austria, China, France, Kenya, Malaysia, Peru, Singapore, Spain) or a mixture of the centralized and decentralized models (e.g., Mexico, South Africa, Thailand).

Annex I. List of State Agencies

Company Name	Ownership (In Percent)
Energy and Energy Based	
Lake Asphalt of Trinidad and Tobago Limited	100
National Quarries Company Limited	100
Petroleum Company of Trinidad and Tobago Limited	100
The National Gas Company of Trinidad and Tobago Limited	100
Trinidad and Tobago National Petroleum Marketing Company Limited	100
Union Estate Electricity Generation Company Limited	100
Alutrint Limited.	60.0
Financial Services	
Clico Trust Corporation Limited	100
Export-Import Bank of Trinidad and Tobago Limited	100
First Citizens Holdings Limited	100
InvesTT Limited	100
Portfolio Credit Management Limited	100
Taurus Services Limited	100
Trinidad and Tobago International Financial Centre Management Company Limited	100
Agricultural Development Bank of Trinidad and Tobago	97.2
ExporTT Limited	64.4
National Enterprises Limited	66.0
Development Finance Limited	49.7
DFL Caribbean Holdings Limited	28.1
Trinidad and Tobago Mortgage Finance Company Ltd.	49.0
Manufacturing and Agro–Based	
Caroni GREEN Limited	100
Cocoa Development Company of Trinidad and Tobago Limited	100
National Agricultural Marketing and Development Corporation	100
Palo Seco Agricultural Enterprises Limited	100
Seafood Industry Development Company Limited	100
MIC Institute of Technology Limited	46.7
Services	
Community Improvement Services Limited	100
East Port of Spain Development Company Limited	100
Education Facilities Company Limited	100
Estate Management and Business Development Company Limited	100
Evolving TecKnologies and Enterprise Development Company Limited	100

Annex I. List of State Agencies (concluded)

Export Centres Company Limited	100
Government Human Resource Services Company Limited	100

Government Information Services Limited	100
Human Capital Development Facilitation Company Limited	100
National Commission for Self-Help Limited	100
National Entrepreneurship Development Company Limited	100
National Health Services Company Limited	100
National Information and Communication Technology Company Limited	100
National Infrastructure Development Company Limited	100
National Maintenance Training and Security Company Limited	100
National Schools Dietary Services Limited	100
National Training Agency	100
Rural Development Company of Trinidad and Tobago Limited	100
The CEPEP Company Limited	100
The Sports Company of Trinidad and Tobago Limited	100
The Trinidad and Tobago Solid Waste Management Company Limited	100
The Vehicle Management Corporation of Trinidad and Tobago Limited	100
Tourism Development Company Limited	100
Trinidad and Tobago Creative Industries Company Limited	100
Trinidad and Tobago Free Zones Company Limited	100
Trinidad and Tobago Tourism Business Development Limited	100
Urban Development Corporation of Trinidad and Tobago Limited	100
Youth Training and Employment Partnership Programme Limited	100
Point Lisas Industrial Port Development Corporation Limited	51.0
Transport and Communication	
Caribbean New Media Group Limited	100
Caribbean Airlines Limited	84.0
National Helicopter Services Limited	82.3
LIAT Limited	2.9
Statutory Authority	
Airports Authority of Trinidad and Tobago	
Port Authority of Trinidad and Tobago	
Public Transport Service Corporation	
Trinidad and Tobago Electricity Commission	
Trinidad and Tobago Housing Development Corporation	
Trinidad and Tobago Postal Corporation	
Water and Sewerage Authority	

Source: Ministry of Finance

Annex II. Australia: Financial Performance Indicators for Government Enterprises

Financial performance (indication of the commercial viability of the enterprise)

Profit before tax =
Revenue – Total expenses (excluding income tax)

Operating profit margin =
$$\frac{\text{Earnings before interest and tax from operation}}{\text{Operating revenue}}$$

Cost Recovery =
$$\frac{\text{Operating revenue}}{\text{Operating expenses}}$$

Return on operating assets =
$$\frac{\text{Earnings before interest and tax}}{\text{Average operating assets}}$$

Return on total equity =
$$\frac{\text{Operating profit after tax}}{\text{Average total equity}}$$

Return on equity based on operating assets and liabilities =
$$\frac{\text{Operating profit after tax}}{\text{Average equity based on operating assets and liabilities}}$$

Operating cash flow to sales =
$$\frac{\text{Operating cash flow}}{\text{Operating revenue}}$$

Financial risk
(information on the risk of an enterprise not being able to meet its financial obligations)

Debt to equity =
$$\frac{\text{Debt}}{\text{Equity based on operatin}}$$

Debt to operating assets =
$$\frac{\text{Debt}}{\text{Average operating assets}}$$

Total liabilities to equity =
$$\frac{\text{Total liabilities}}{\text{Total equity}}$$

Operating liabilities to equity =
$$\frac{\text{Operating liabilities}}{\text{Equity based on operating assets and liabilities}}$$

Interest Coverage =
$$\frac{\text{Earnings before interest and tax}}{\text{Gross interest expense}}$$

Current ratio =
$$\frac{\text{Current operating assets}}{\text{Current operating liabilities}}$$

Leverage ratio =
$$\frac{\text{Total operating assets}}{\text{Equity based on operating assets and liabilities}}$$

Short term debt coverage =
$$\frac{\text{Operating cash flow}}{\text{Current liabilities}}$$

Transactions with government
(impact of the transactions with the government in the enterprise's finances)

Dividend to equity =
$$\frac{\text{Dividend paid or provided for}}{\text{Average equity based on operating assets and liabilities}}$$

Divident payout ratio =
$$\frac{\text{Dividend paid or provided for}}{\text{Operating profit after tax}}$$

Income tax expense =
$$\frac{\text{the value of income tax or income taxequivalent}}{\text{expenses payable to government}}$$

Grants revenue ratio =
$$\frac{\text{Grants to cover}}{\text{deficits in operations Revenue}}$$

Public service obligations =
the sum of payments by governments to public corporations for the specific noncommercial activities that they direct public corporations to undertake

Source: Australian Government, Productivity Commission, "Financial Performance of Government Trading Enterprises" (http://www.pc.gov.au/research/completed/government-trading-enterprises).

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