

Does a fixed  
floating rate  
makes sense?

Page 3



ANSA Merchant  
gives TTNGL IPO  
strong buy rating

Page 6



Full-time job or  
business?

Page 7



SUNDAY

OCTOBER 11, 2015

# BUSINESS

**Guardian** Trinidad and Tobago

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THIS WEEK IN BUSINESS

## Corporate governance

**Making of a better nation**

Pages 4&5



### ■ Tuesday, October 13

TTMA  
Post Budget Forum  
Arthur Lok Jack GSB  
North Campus  
Mt Hope  
8 am

Ministry of Planning  
Trade Show on Technology  
Using Ozone Depleting  
Substances  
Hyatt Regency  
PoS  
Opening Ceremony  
9 am  
Trade show 10 am to 5 pm

### ■ Wednesday, October 14

Trade Show on Technology  
Using Ozone Depleting  
Substances  
Hyatt Regency  
PoS  
Trade show 10 am to 5 pm

### ■ Thursday, October 15

Payment date for Scotia  
Investments Jamaica Limited  
Scotia Investments Jamaica  
Limited will pay an interim dividend  
of JMD \$0.45 per share



# Making government more accountable

Finance Minister, Colm Imbert



"At one point in 2015, just after the Election, with no new contractual obligations on the part of the incoming government or new items of expenditure, the overdraft at the Central Bank reached 98.0 per cent of the legal limit, with barely enough funds to service the country for a few days."

"For the fiscal year 2015, while government revenues from petroleum fell by \$8.0 billion compared to budgeted estimates, government expenditures were only reduced by a mere \$3.0 billion. As a result the fiscal deficit ballooned to \$7.0 billion."

Finance Minister, Colm Imbert, excerpts from his Budget 2016 presentation

In her response to the Minister Imbert's presentation, Opposition Leader, Kamla Persad Bissessar challenged his figures, estimating the same deficit at only \$1 billion. As one side makes claims of massive and wanton spending and the other defends its actions, it may be hard for the public, whose purse the money is coming from, to know what's really going on.

**NATALIE BRIGGS**

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Dr. Axel Kravatsky, chair of the Caribbean Corporate Governance Institute (CCGI), says that better corporate governance strategies can help with the wider issue of fostering better governance, making these situations a thing of the past. The institute has been pushing for greater adoption of a code it formulated and launched back in 2013.

Speaking with the Sunday BG in an interview at his St. Clair office, Kravatsky explained how accountability and information should flow between citizens and the government.

"The way it works is firstly, you have citizens, who are giving power to legislators through national elections. Then legislators are reporting back on what they are doing on an occasional basis. Amongst the legislators, the Cabinet is formed. The Cabinet then delegates powers and responsibilities to ministries.

"From that, they then delegate further responsibilities to public bodies. For accountability to work, information has to come back, (through the system) all

Continued on page 5

Opposition Leader, Kamla Persad Bissessar





# Little attention paid to how things run

Continued from page 4

the way. This is called the long route to accountability and is based on a World Bank 2003-2004 study."

The CCGI chair said there were several breakdowns along the chain through which information and accountability flow among government, state agencies and public. This, he said, is largely because nobody was asking for the right information.

According to Kravatsky, even though regulatory bodies, such as the Central Bank and Financial Intelligence Unit, were asking for greater quantities of information, they still paid little attention to how entities under their control were being run.

"If they are not being asked to report on how they are being governed, but only on the results that they produced and the money they have spent, you cannot really hold the board members to account."

"This is because you do not know if they do reasonable things. Is it reasonable for you not to meet? What policies have you put in place? How do you deal with third party transactions? How do you deal with conflicts of interest? If you don't know, that accountability path is being hindered."

Kravatsky continued: "If the ministries don't know these things, the Cabinet cannot hold them to account. If the Cabinet cannot hold them to account, Parliament cannot hold them to account. We just know that X metres of box drain, were produced but we don't know if it was done so in an efficient or effective manner. Then, if they don't disclose anything to the public, the public cannot hold them to account."

And currently, very little compels government agencies to adhere to corporate gover-

**"If they are not being asked to report on how they are being governed, but only on the results that they produced and the money they have spent, you cannot really hold the board members to account."**

nance best practices, largely because this country lags behind its Caribbean neighbours and the international community in the adoption of a corporate governance code both in the private and public sectors.

Kravatsky said the International Standards of Accounting and Reporting (ISAR) benchmark contains 51 disclosure items that companies should reveal. To compare he said organisations in the UK disclose about 45 of these items, meanwhile T&T companies reveal anywhere between four and 46 of these items, a much wider spread. T&T also only has five items that must be disclosed written into law and regulation.

He said, if the recommendation made by the CCGI's Corporate Governance Code are taken into account, T&T is compliant with 27 of the ISAR's recommendations. But this is still lower than Jamaica and Barbados, which both have over 30.

The CCGI chair said while several organisations have adopted the code over the past two years, many still chose not to publicise the fact. Kravatsky said there was a general feeling among them that "they were not there yet" and wanted to get things in order before they did.

Regarding the public sector, Kravatsky said former finance minister, Larry Howai, was a supporter of the code's adoption, but he never insisted that any of the ministries use it in their operations.

He is reaching out to current Finance Minister, Colm Imbert and is hoping the CCGI can partner with him to create a new corporate governance culture with the public sector. In this new dispensation, the ministry of finance, as Corporation Sole, acts as a board, presiding over the rest of the ministries and their attendant state agencies.

"The corporation sole, has to manage so many people and so many organisations, it is essentially like a board. It must think of itself with all the responsibilities of a board governing a portfolio of companies. It is very difficult to do that, unless you have the right processes in place."

One of these processes is the decentralisation of the monitoring and reporting process.

Kravatsky said a tendency in T&T was for one or two central regulatory bodies to be watchdog over scores of other bodies. He gave the Integrity Commission as an example.

"Each one of these entities that falls under its purview, must conform with the code of

conduct which is in the (Integrity in Public Life) Act. But the interpretation is that it is the Integrity Commission which needs to go and enforce that in each place. And it doesn't really have the power or the resources."

Instead Kravatsky suggested that each ministry be responsible for its own internal structures of regulation and enforcement, appealing to Corporation Sole to intervene as a last resort.

Further, each ministry and state agency should be equipped with the resources and finances to do so.

Referring to the World Bank's Long Route to Accountability diagram (see diagram), Kravatsky said this formed part the Delegating and Financing elements necessary for accountability.

He also recommends better reporting standards for government ministries and their state agencies.

As he noted before, reporting should not be just indicating how much was produced and how much it cost, but should also include what standards were used to judge whether this was a good use of the resources that ministries and state enterprises utilised to create public goods.

"The Prime Minister and others are saying that resources haven't been used effectively and now we have to tighten. The question is, how ineffectively? And what are your inputs really?" said Kravatsky.

"A board that is governing well knows what inputs it uses, it knows how it transforms these inputs through activities into outputs and if those outcomes count. An annual report should tell me these things. If you see that, you can form your judgement and see whether these people are managing or not and are they achieving reasonable results or not."

It is through increased annual reporting standards, the public can tell what state bodies have been doing, the Performing and Informing elements necessary for accountability.

"The main story is right now, the state doesn't know what its entities are doing. Partly, because it is not asking them to tell it what they are doing. The public doesn't know what these entities are doing because the entities are not being asked to report to the public. So if we want to change the situation, if we want to increase accountability, one of things we need to do, is to ask people to report on what they are doing."

"If you take away information, the whole accountability cycle falls down," said Kravatsky.

He said information was generally hard to come by in T&T and that this "may not be by chance".

If all the other elements are in place, organisations are better able to enforce and take corrective action where things are going wrong.

Kravatsky said new boards being appointed now have a responsibility to put these systems in place, particularly at a time when conservation of resources was important.

He also said another important element for better corporate governance in the public sector is civil society.

"We need to increase and improve the capability of citizen groups to organise. So civil society itself needs to strengthen, because when it is organised, it has a better voice in the system."

Recognising the complexity of the issue, Kravatsky said national dialogue was necessary.

"This can be fixed," he said.

