MINISTERIAL STATEMENT
HONORABLE RYAN STRAUGHN, M.P.
MINISTER IN THE MINISTRY OF FINANCE

As you are aware Barbados has developed a home-grown economic program which is being supported under the International Monetary Fund's Extended Fund Facility (EFF). One of the key elements of this program is the reform of State Owned Enterprises (SOEs).

The State Owned Enterprises in Barbados currently consist of fifty eight (58) entities. Of this amount, thirty-seven (37) are being classified as Commercial SOEs, while the remaining twenty-one (21) have public service and regulatory objectives and are being classified as non-commercial SOEs.

Normally, transfers from central Government to SOEs are extremely high and a major contributor to fiscal risk. We are therefore aiming to reduce these transfers by a combination of much stronger oversight of SOEs, improved reporting, cost reduction, revenue enhancement and mergers and divestments.

A number of SOEs are now being reformed under the EFF program and will be closely monitored through structural benchmarks, allowing for timely implementation of additional measures should slippage occur. One of these structural benchmarks is the requirement that a standardized quarterly financial report be laid in Parliament.

The quarterly report at December 31, 2018, reports on fifty one (51) SOEs out of the fifty-seven (57) that are being monitored, which represents a 90% compliance rate. Some six (6) SOEs have therefore not complied and this is a clear contravention of the directives from the Director of Finance and Economic Affairs which stipulated that SOEs were to report their quarterly financial information by the 5th of the month following the end of the quarter as well as submit restated financials at December 31, 2018 in respect of the write off of inter-governmental arrears.

The report summarizes the aggregate performance of the SOE sector for the quarter, with their fiscal position being impacted by Government's write-off of transactions occurring between the SOEs and central Government, which affected outstanding amounts for Receivables, Payables and Loans.

The analysis on the data suggests that the SOE portfolio to a large extent had underperformed during the quarter and this was demonstrated in the ratios for profitability, liquidity and debt which were predominately below the acceptable benchmarks.

On the surface, the third quarter marked an encouraging period for the SOEs in terms of performance, with the entities reporting an Aggregate net profit of $186.82M. The commercial SOEs were the major contributors, accounting for 92% or $171.77M of the total, while the non-commercial SOEs accounted for the remaining 8% or $15.05M.

However, these profits earned by the SOEs were largely as a result of the intergovernmental write-off exercise which resulted in a number of the SOEs, posting to Other Income, the payable balances that were written off. This transaction, which was one-off, had the effect of increasing the overall revenue totals for the quarter. Excluding the write-off, the non-commercial SOEs would have reported a net profit of $1.86M, while the commercial entities would have reported a net loss of $14.20M.

The entities identified for reform reported a net profit of $117.42M for the quarter with the results being largely influenced by government grants as well as the write-off. A net loss of $169.01M would have been recorded had the GOB subvention and the write-off of interagency balances been excluded.

There were five (5) top profit-earners within the group (Barbados National Oil Company Ltd. & Barbados National Terminal Company Limited Consolidated, Caribbean Broadcasting Corporation, Barbados Agricultural Management Co. Ltd (BAMC), National Petroleum Corporation and Queen Elizabeth Hospital) which reported profits totalling $71.17M, $44.12M, $34.69M, $19.18M and $14.03M respectively. However, without including government grants and the write-off, only two (2) of these five ((5) SOEs would have recorded a profit - the BNOCL ($2.14M) and the BAMC ($1.33M).

Conversely, there were some significant loss makers, namely the Barbados Tourism Marketing Inc., the Transport Board and Caribbean Aircraft Handling Co. Ltd. with reported net losses of $7.69M, $7.12M and $5.25M respectively.

As previously mentioned the analysis of the financial ratios showed a concerning trend of low levels of liquidity across a large portion of the SOE sector, particularly within the commercial SOEs where it was shown that this group recorded a working capital deficit of $65.08M.

Approximately twenty (20) SOEs recorded current ratios that were just slightly above or below the minimum acceptable benchmark of 1 – ranging between 0.07 and 1.40. The Student Revolving Loan Fund, Fund Access, Enterprise Growth Fund Limited and Caves of Barbados were the main exceptions to this trend as these entities recorded significantly high ratios of 173:1, 43:1, 25:1 and 19:1 respectively.

The analysis suggests that liquidity was largely suboptimal especially within the commercial SOEs and to a lesser extent within a number of the entities included in the group in the EFF program. This situation could lead to the SOEs accumulating arrears, which has the effect of increasing the GOBs exposure to financial risks.

The debt to equity ratio at the Aggregate level stood at 1.93, placing it above the traditional benchmark of 1, and suggested that for every $1 in equity, the group had $1.93 in debt. Within the commercial and non-commercial SOE portfolio, however, there was a level of contrast. The commercial SOEs recorded a high debt to equity ratio of 2.10, while the non-commercial entities debt to equity ratio was favourable and stood at 0.65.

Further, regarding entities identified for reform, the debt to equity ratio was also relatively high at 1.68.

However, given that the debt restructuring exercise is still ongoing, this is expected to address this area. It is therefore important that SOEs continue to be closely monitored to ensure that these financial challenges when corrected do not reoccur.

Two other areas of concern relate to some entities over dependence on Government and to the cost recovery ratio;

Government Subventions/Grants was shown to be an important contributor to the Total Revenue of the SOEs, accounting for 30% of the Aggregate Total Revenue.

In the commercial SOEs, Government subventions represented 22% of the revenue. This is in contrast to the non-commercial sector where the contribution of government subventions was substantial, accounting for 65% of their revenue.

Operating Revenue as a percentage of operating expense (cost recovery ratio), was slightly below the benchmark and stood at 93% for non-commercial entities, 90% for commercial entities and 97% for the entities in the program. This suggests that these entities were not generating enough operating income to cover their operating expenditure.

Regarding the commercial entities this indicator was especially concerning, as this sector should be more profit focused. At least ten (10) commercial entities had cost recovery ratios of less than fifty percent, with four of these having ratios of zero.

The above largely indicates that cost recovery is generally poor in the SOE sector, and underscores the importance of the need for a thorough review of the tariff and user fee structures to address this peculiarity. The identification of areas where costs can be streamlined would also contribute to improving the operating performance of the SOEs.

The arrears of SOEs is an issue that has plaque the country for a number of years. This issue was of significant concern to the Government as the size of the deficit was directly impacted by these arrears.

The Government in its attempt to address this issue has instituted a number of measures to clear a significant portion of the arrears held by the SOEs. Initiatives that were introduced include:

- the arrears of five (5) major SOE suppliers as part of Government's debt restructuring programme;

- Writing off inter-governmental transactions occurring between SOES and other public sector bodies; and

- The Government offering discounted settlement to suppliers for arrears occurring prior to September 30, 2018. For the latter measure, SOEs were instructed that the arrears were not to be liquidated by them, and the balances were to remain constant until the government settles the amount. The SOEs were also instructed that they should no longer be accumulating arrears from the aforementioned date.

The data however largely suggest that there are still a few issues with regards to the management of arrears, but these are being dealt with accordingly. Although a number of reasons have been cited for this, it is unacceptable as it can derail the program if not stemmed.

One of the major highlights within the SOE sector relates to the impending enactment of the PFM Act. This legislation is scheduled to be proclaimed shortly and should provide the Government with a strong legal framework that would target the areas of deficiency within the SOEs that include gaps in accountability, transparency and fiscal prudence.

The standardisation of the financial reporting within the SOEs is also an area that is to be addressed and this would have the dual purpose of assisting in improving the comparability of the SOEs financial statements as well as improving on the quality of the financial data and accompanying notes being submitted.

Efforts are also being undertaken by the Government to accelerate the completion of the Audited Financial Statements of the SOEs, where a considerable amount of them are in backlog. This exercise, which is also a key requirement of the IMF supported programme would greatly assist the Government as the owner and shareholder of the SOEs, to obtain better assurance with regards to the reliability of the information contained in the Financial Statements.

A consolidated data base will also be developed to ensure that information is more timely and accurate.

Unfortunately, the analysis of the data suggests that the SOE portfolio to a large extent underperformed during the quarter under review and that the financial performance was weak at both the aggregate level and within the groupings. Additionally, although it is appreciated that a lot of work is being done on the financial analysis side, the risk management and non-financial areas will need to be strengthened.

It is apparent therefore that despite the strides that we have made there is still a lot of work to be done.