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Crime, Violence and Justice

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CRIME, VIOLENCE AND JUSTICE

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BACKGROUND: CRIME

Taking Responsibility

CaPRI is a Caribbean think tank that promotes evidence-based policymaking in the region. CaPRI espouses a methodology which is built on the values of multi-disciplinary work, team work and the utilization of the diaspora in our search for evidence. Committed to the region's development, CaPRI has strong linkages with the academic community, the private sector and civil society.

Research on the relationship between crime and the economy in Jamaica found two key links. One is that crime directly retards economic growth. The second is that the high rate of violent crime, apparently connected to high levels of interpersonal trust and low levels of confidence in the organs of the state - the police and court system -heightens transaction costs and thereby diminishes economic activity. Given the apparent connection between violent crime and the loss of confidence in the state, an effective strategy to tackle crime thereby necessitates a restoration of this confidence. Sixty-two percent of respondents in CaPRI's survey on perceptions of corruption in the public sector (September 2006) believed the public sector to be corrupt. Although such a strategy could pose political challenges, its actual content has now been fairly well established in a substantial body of research. In short, we know what needs to be done.

At the heart of the Jamaican crime problem are organized crime and the related high murder rate. Organized crime is the main problem because it has made a business of crime, has professionalized it, made it transnational, generated huge income streams from drug trafficking and extortion, and made the criminal networks powerful players in a number of inner-city communities in the cities and some of the major towns of the island. According to the Economic & Social Survey of Jamaica 2006, 32.5%, almost one-third, of all murders were connected to gang disputes. Moreover, the organized crime networks have formed alliances with selected politicians and have become important players in local and national politics¹. They use their money and power to corrupt critical institutions of the country, including the very police force that is supposed to repress them. CaPRI's own survey on corruption in the public sector (September 2006) showed that 81% thought the police force was corrupt. In short, organized crime in Jamaica demonstrates that crime pays and is a viable route to social success.

Organized crime has some common roots with violent crime. The most rigorous empirical research on the Jamaican homicide problem indicates that the key determinants of the homicide rate are:

- The high rate of youth unemployment (and underemployment)
- Inequality, which finds expression in the concentration of social problems in the so-called inner-city areas of Kingston and Montego Bay, that is, the marginalization of the urban poor. Many now lack the basic education and social skills to make them fit for

¹ References to the alliance between politics and crime abound, including Carl Stone's 1986 "Class, State, and Democracy in Jamaica", Praeger Publishers; Anthony Harriot (2007), "Organisational Crime and Politics in Jamaica", Canoe Press; and the Political Tribalism Report- Government of Jamaica Constitutional Reform Unit (1997).

employment.

Taking Responsibility

• The ineffectiveness of the criminal justice system. The sources of this ineffectiveness vary from institution to institution, but in the case of the police, they include incapacity, incompetence and corruption. One outcome of this ineffectiveness is the low conviction rate for serious crimes, including murder. Another is the low level of confidence in the institutions - which in turn becomes a factor for ineffectiveness. The interactive processes involving the above factors have set in motion the vicious cycles in which we are now locked.

Organised crime feeds on these three sources and processes, but in addition, it is facilitated by official corruption - primarily in the political system and the criminal justice system.

It must be emphasized that the above are root causes. There are also important proximate causes that must be taken into account in completing one's understanding of the problem and thereby elaborating a response. Among these proximate causes are the attractiveness of the drug trade and access to firearms. Any response to the problem ought therefore to be informed by the above specification of the problem and should therefore include place-specific social violence prevention programmes which are designed to reduce youth unemployment in the high violence areas. This would require skills-training (including social skills) that would make youth more employable.

There is an important debate as to how best to pursue this issue of dealing with the high levels of chronic youth unemployment. One line of reasoning is that the first stream of investments should be directed at upgrading the underemployed and those who are already trying to help themselves and who already have the social skills, discipline and general attributes that are required for success. They would then become models for the others. The logic is clear and this may be the most sustainable approach, but it must be recognised that the crime prevention returns on this strategy are not short-term. The alternative is a more direct approach that tries to soak up the unskilled, anti-social youth who are most prone to crime. The difficulty here is that this would require great investment of state resources and may not be sustainable - that is, unless there is rapid growth in construction and other sectors of the economy that are able to absorb unskilled and undisciplined labour.

The first approach, of upgrading skills levels, will be more likely to succeed if it is accompanied by a wider, more comprehensive programme that seeks to upgrade, and better integrate selected inner-city communities, particularly those in which murder 'hot spots' lie. Ideally, any such programme would also include degarrisoning the inner cities. If this is agreed, than a strategy for degarrisoning should be elaborated and an implementation plan - with key deliverables that allow for monitoring and reporting -- agreed to.

In addition, tackling the crime problem will also require an acceleration of the programme of criminal justice reform. The programme of police reform is now over twelve years old, but the

² A hot spot is a condition indicating some form of clustering in a spatial distribution i.e. a place where a significant number of murders occur, relative to the surrounding community's other spaces.

Prepared by: CaPRI

2



results are at best mixed.

Taking Responsibility

Better methods of bench-marking, evaluating and measuring progress, and of holding the institutional leaders to account, are needed. A similar need exists in the justice system. In 2007, the Task Force report on reform of the justice system was completed. It should form the basis of systematic corrective action.

Finally, there needs to be an effective move on corruption prevention and control. The available data suggests that corruption is a major developmental problem in Jamaica, and as noted above, it is a facilitator of high-end crime. Legislation is now being drafted that should empower a new agency that would have responsibility for investigating corruption. This presents an opportunity to ensure greater effectiveness. Better coordination of the various existing agencies and improved resource allocations to these agencies are conditions for greater effectiveness. Any new arrangement should solve these problems.

In summary, there are three main legs on which crime prevention and control should stand. These are inner-city upgrading and integration (including targeted youth employment); reform; and corruption prevention and control. These should have as their primary targets organized crime and the murder rate. With these in place, other supportive programmes such as community-peace-building, preventing youth and school violence, and public order initiatives that are designed to bring some discipline to the use of public spaces in the major towns, may then have greater impact.

CRIME, VIOLENCE AND JUSTICE IN JAMAICA

In May 2006 a task force was commissioned by then the leader of the opposition now the Prime Minister to take a good look at and make recommendations as to how crime and violence could best be tackled in Jamaica. I intend to quote extensively from this report which in my opinion provides a clear road map of the causes and solutions.

- 1. Jamaica is faced with a deep crisis of public safety and an equally deep crisis of public confidence in the willingness and capability of the criminal justice administration to effectively respond to the challenges. This crisis of public safety is manifested in the extraordinarily high murder rate and the high rate of violent crimes. More importantly, driving the figures are troubling social processes that have culminated in what has been officially described as a culture of violence³. In 2005, the country returned a murder rate of 63 incidents per 100,000 citizens. This places us at the top of the ranking as the most murderous country in the world.⁴ In the five-year period 2001-2005, there were 6304 reported murders, some 6919 shootings, approximately 4324 rapes and 1078 cases of carnal abuse. This high level of violent crime has persisted for some 30 years. Violence has now become a familiar part of everyday life in urban Jamaica. In these regions of the country, there are few persons that remain completely untouched by this violent criminality regardless of class, colour or creed.
- 2. The crisis of public confidence in the criminal justice administration is also expressed in the high levels of fear of crime and the view that crime is out of control. Every day the "average" urban citizen witnesses a number of incidents of law violations and public disorder that go unchallenged by the authorities and their fellow citizens. These may occur in very public places such as the transport centres and markets where extortionists ply their trade, "taxing" taxi operators, higglers and store owners; in schools where children may violently attack their fellow students with near impunity; and in some communities where young men are able to openly parade with their illegal guns and to boast of "making duppies". Moreover, from time to time the violence of the competing organized crime networks are able to shut down sections of the capital and other towns as has repeatedly been the case in Downtown Kingston and Spanish Town. Not surprisingly, national polls now show criminal violence to be the first concern among the Jamaican citizenry.⁵
- 3. The response capability of the State has been weakened or hollowed out by corruption. There is general consensus that Jamaica suffers from endemic corruption and that this has been spreading throughout the system and has become institutionalized in the Police Force, is evident in the Department of Corrections and even in the judiciary.

³ National Security Strategy for Jamaica 2005

⁴ The reader should note that some countries with very high homicide rates do not report these rates to INTERPOL and the WHO which also publish homicide rates; we do not have estimates for these countries.

⁵ See Daily Gleaner March 14, 2006, page 3.

Studies such as the one done on Political Tribalism⁶ confirm that corruption extends to the political administration where it saps the political will to treat effectively with the crime problem. There are now large groupings of key institutional actors who are the beneficiaries of this and its related problems. They have a vested interest in blocking the changes that are needed to ensure effective institutional responses to the crime problem. Any effort at improving the effectiveness of the institutions of crime control will therefore sooner or later collide with institutionalized corruption.

- The situation requires a sense of urgency, focus and seriousness of purpose. Crime, especially violent crime, presents a challenge to leadership at the level of the political administration, the criminal justice administration, and other key institutions such as the schools, as well as the community and civil society in general. A broad consensus based on unity of purpose, agreement on the values that should inform the responses of the state, the priorities, the funding of these priorities and the willingness to make the associated sacrifices is needed (and may even be a precondition for an effective and sustainable programme of action).
- Although the Special Task Force on Crime did not conduct an exhaustive evaluation of the degree to which the recommendations of previous reports have been implemented, the consultations and discussions have led to the view that at best past recommendations provided a temporary respite from the overwhelming threat of crime and violence and, at worst, they were in the main ignored beyond the announcement of their publication.
- The Report of the Task Force on Political Tribalism (July 1997) is a case in point. It could be argued that almost nine years after the publication of that document, the features which define garrison communities and constituencies still exist. In fact, there is a denial of their existence among very powerful elements of the political leadership.
- The Report of the National Committee on Crime and Violence (October 2001) has had similar treatment meted out to it. Astonishingly, the contents of the document signed in Parliament by the ruling and opposition parties had been altered from the original submitted by the Committee. It is expected that these and similar reports will be subjected to critical scrutiny and political negotiations that may alter them is some ways. In order to become policy, they must enter the political process and become subject to it. This is on the face of it a healthy aspect of democratic decision-making. Nevertheless, this kind of action raises the issue of the extent to which a sound, rationally grounded report coming out of a properly constituted committee can be "doctored" and still retain its integrity.
- In the actual implementation of the recommendations contained in the Report of the 8. National Committee on Crime and Violence, the implementers have displayed a tendency to "cherry pick" from among the recommendations. This approach is very evident in the treatment of recommendations pertaining to the Jamaica Constabulary Force where there has been a demonstrated preference for conditions of work and hardware solutions, while ignoring structural and policy changes that are critical to achieving the intended outcomes.

Prepared by: Peter Thwaites

⁶ Report of the Committee on Political Tribalism, July 1997

- 9. The Special Task Force on Crime would be remiss if it did not point out a failing that has conspired against the implementation of the recommendations emanating from the work of similarly constituted and well-intentioned bodies. Resources have typically not been made available for the implementation phase. This is especially telling in the area of social interventions where the relevant agencies of Government have tight budgets tied to work programmes built around narrow mandates. There is also no history of cooperation between or among these agencies.
- 10. While recognizing that there are institutionalized challenges in how Government works e.g. budgetary limitations and cultural challenges, if the members of this Task Force had to identify a single cause for inaction it WOULD BE LACK OF POLITICAL WILL AND LEADERSHIP.
- 11. If these recommendations are to be successfully implemented, then the people of Jamaica will have to see demonstrated a greater level of leadership and accountability.
- 12. The Jamaican crime situation is very dynamic. Any attempt to develop a policy response that has a chance of gaining consensual support must be grounded in a proper characterization of the situation. Earlier in the report, the current situation was characterized as a *crisis of public safety*. This is quite different from a *crisis of state security*, or a crisis of *generalized state failure* or institutional collapse. It specifically refers to the inability of the responsible state institutions to adequately protect the citizenry from criminal victimization.
- 13. How one responds to a "culture of violence" is different from how one would respond to a situation in which the levels of social and ordinary criminal violence may be high but these behaviour patterns are situationally induced rather than culturally grounded. To admit to a culture of violence is by definition to admit the existence of a profound crisis.
- 14. A crisis situation demands a different type/level of intensity of response and resource mobilization than a "normal" situation or lower-level problem. This is a simple requirement of integrity. Failure to act in a manner that is consistent with such an evaluation of the situation may indicate a deeper crisis of state (in) capacity, or of endemic corruption and a complicit or at least a weak and diffident leadership.
- 15. According to the NSS, the main crime-related threats facing the country are organized crime (especially transnational organized crime) and public disorder or as it is put in the document "the rule of law (is) at risk".
- 16. Organized crime is a prime source of violent criminality, especially large-scale violence that is able to confront the security forces and to create major disruptions in the economic and social life of some of the major cities. Beyond this, is the problem of social violence among

⁷ See the National Security Strategy for Jamaica 2005 page 6

ordinary citizens who are unable to peacefully settle quite ordinary everyday disputes without resorting to violence - and who do not have the assistance of the institutions of the State (for example, a more proactive and interventionist police service). The idea that a (sub) culture of violence has developed in urban Jamaica has its evidential basis in this reality.

- 17. Subcultures of violence develop where the State is ineffective in treating with everyday social conflicts and social violence. The people therefore tend to avoid the use of the state institutions and instead resort to self-help violence as a way of resolving conflicts and seeking "justice." The problem becomes progressively worse and out of the control of the responsible institutions of the State which are increasingly ignored by the affected population. Arresting the present situation is thus a matter of great urgency.
- 18. An effective strategic response to the problem must rest on an understanding of the "roots" of the problem. Violence has many roots. And there are different types of roots that exist at different (soil) levels. As noted by the report of the National Task Force on Crime 1993 (popularly called the Wolfe Report), individuals commit crime. An understanding of *criminality*, that is, the act of committing a crime, is thus incomplete without identifying the factors driving individuals to commit the different types of crimes. These are usually called risk factors. Primary research conducted by UWI academics have isolated these factors for children-at-risk; however, similar work has not yet been done on adult populations. Identification of these factors may aid interventions that serve to reduce risk and reinforce resiliency at the level of the individual-at-risk. This is especially effective when articulated with similar analyses of the local contexts in which the individual operates and makes choices. For example, the identification of risk and resiliency factors for communities may aid interventions in communities-at-risk. However, as critical as individual and local (community and school level) interventions may be, their success or failure often hinges on developments at the national level.
- 19. The current high *rate* of violent crime is the outcome of a long process that has its "roots" in:
 - High rates of youth unemployment
 - Historically high levels of social inequality, and
 - An ineffective criminal justice system.
- 20. These are empirically established relationships, not speculative conclusions or inferences from general theories of society and the processes of socialization and social control although these may provide useful insights into the nature of the problem and give coherence to the solutions.

⁸ We refer to the excellent work of Dr. Maureen Samms-Vaughn and Julie Meeks-Garderner. See for example, A Case-Control study of Family and School Determinants of Aggression in Jamaican Children by Dr. Meeks-Garderner. It was published by the PIOJ in 2000.

⁹See Francis, A. et al. 2003. Crime and Development: The Jamaican Experience. Mimeo; and Frost, B. and Bennett, R. 1998 "Unemployment and Crime: Implications for the Caribbean" which was published in the Caribbean Journal of Criminology and Social Psychology Vol. 3 # 1-2 - for discussion on the empirically established relationships.

- 21. High rates of youth unemployment (age 14-24 years) are generally associated with high levels of violence. This finding has been reported in study after study in country after country and is true for Jamaica. It is well-known that a high proportion of violent crimes are committed by young males who are unemployed and underemployed. This problem is compounded in conditions of high levels of inequality. Policies that reduce unjust inequalities are likely to reduce some categories of violent crime, but recent research findings cast some doubt that in our case they would have an impact on the murder rate. What is however very clear from the existing research on Jamaica is that police effectiveness as measured in terms of the clear-up rate and conviction rates would have a powerful, deterrent effect on violent crime, including murder although it should be noted that existing research suggests that a simple increase in the number of police officers is not likely to yield a significant crime control return. The point is to improve the effectiveness of the Police (which does not automatically follow from increased numbers, but does not preclude this) and to end the impunity with which people are able to commit murder and other serious crimes.
- 22. If the problem has its "root" in the above factors (among others), it is further facilitated by high levels of corruption. Transparency International measures the degree to which corruption is perceived to exist among public officials and politicians and produces an annual corruption perception index. For 2005 Jamaica attained a score of 3.6 out of 10 and ranked it 64th out of 159 countries surveyed. In most countries of the world where there has been the development of powerful organized crime networks, this has been facilitated by corrupt relationships between ordinary criminal gangs and the major political institutions. The gangs become key players in the processes of political mobilization on the streets, securing electoral victories, and in consolidating power often because of their hold on communities of the urban poor. This relationship leads to a flourishing of corruption and the plunder of the resources of the State. This is usually done via construction contracts, solid waste disposal contracts, and contracts for other services, including security services.¹⁰
- 23. Most of all, corruption facilitates serious crimes, and endemic corruption ensures the freedom of action to build powerful and successful criminal enterprises. This is most problematic and yet most evident in the police service where corruption is endemic and institutionalized. In the interviews that were conducted by the Special Task Force on Crime selected JCF personnel from different ranks expressed the view that the majority of their senior officers were corrupt and/or were tolerant of corruption within the Force. Some of the corrupt practices that have become endemic include:
 - Payoffs for road traffic offences
 - Sale of gun licenses
 - Sale of ammunition
 - Dropping charges, including serious offences
 - Advising criminals of planned police interdiction
 - Not turning up to give evidence in court
 - Not recording reported crimes to avoid having to investigate

See Harriott, A. 2005 The Rise of Organized Crime in Jamaica. Paper presented at Think Tank 2005.
Prepared by: Peter Thwaites
5

- Planting evidence
- Stealing evidence or arranging its "disappearance"
- Stealing the seizures of raids (narcotics, money, weapons, etc.)
- Providing bodyguard service for dons and other questionable characters
- Providing escort for illegal drugs
- Evidence-tampering switching narcotics in storage
- Removing evidence from crime scenes
- Tampering with biological exhibits, e.g. urine samples
- Subtle intimidation conducting road traffic "checks" to intercept motorists and try to sell them tickets to police "fundraising" events
- Theft of motor vehicle parts from vehicles in custody of police pound
- Sale of favourable inspection reports for clubs, bars and other entities operating under Spirit Licence
- Perjury to either secure or set aside convictions
- Not recording crimes reported in order to falsify statistics
- Extortion sale of "protection"- providing security at construction sites and events (dances, etc.)
- Contract killing or "murder for hire".
- 24. With regard to the "root causes" identified above, we are referring to them as determinants of the homicide *rate* and rate of violent crime, not individual *acts* of homicide or violence. As rates are features of the society, they are explained in terms of other features of the society (that may be manipulated by public policy instruments). For us a "root cause" is something that has a measurable independent effect on the rate of violent crime. To avoid confusion, determinant is perhaps a better word.
- 25. The real point here is, however, that an effective crime control policy must treat with these determinants or root causes and the main facilitator of high end and organized crime, that is, corruption. Public resources are scarce and thus it is very important for policy, programme and even project success that the coordination and sequencing of any response is unified by a common strategy. For example, programmes aimed at reducing youth unemployment and transforming the inner-city communities may be counterproductive and serve to empower the networks of organized crime that operate in some of these communities if these networks are not smashed prior to or simultaneously with the implementation of these programmes and projects.
- 26. The Special Task Force on Crime suggested that a major strategic objective is to smash organized crime.

The reasons for this are:

- Organized crime serves to advertise the success of crime, including violent crime. Its leaders are high profile models of material success whom others try to emulate.
- They command considerable means of violence.

- They are able to use their criminally-acquired wealth to corrupt some of the key institutions of the country including the Police Force, elements in the state bureaucracy and the political parties.
- They have made a successful business of violence. Successful extortion rackets are ample evidence of this.
- 27. The successful rooting out of organized crime would clear the ground for inner-city renewal and successful youth employment projects that may involve attracting private sector firms to inner-city areas.
- 28. To crush organized crime, however, requires:
 - Appropriate legal instruments have been passed which allow the State to seize their criminally-acquired assets and to arrest entire groups of criminal conspirators, that is, to close down the criminal firm. This will take the profits out of crime. This is likely to be more effective than killing the dons who are easily replaced.
 - Cutting its links to the political parties and via the parties to the State. These links are a source of its wealth and ability to launder criminally-acquired money. These links are also a source of its power in the communities of the urban poor.
 - These linkages are strongest and most problematic in the garrisons. It is here that the crime networks are able to entrench themselves and to secure safe havens. De-garrisoning is thus an important element in any strategy to crush organized crime.
 - Controlling police corruption and improving the investigative capacity and competences
 of the Force. It is partly this corrupt link that guarantees it impunity or freedom from
 successful prosecution. We will return to these issues in the next section of the report.
- 29. The problems of organized crime have been highlighted because it is a driver of the process that makes crime successful and attractive and it is a prime source of violence. But as noted earlier, there is also a more generalized problem of violence in the society.
- 30. While it would be totally inappropriate to apply peace-making and mediation strategies to dealing with organized crime, these responses are quite appropriate for treating with many forms of social violence between ordinary citizens. The institutional capacity for delivering these types of services should therefore be strengthened.
- 31. Pacification of the society and especially the high violence zones, however, requires more than the smashing of organized crime and the access to conflict management services. It requires, at least in the short term, intensive policing and a robust programme of public order maintenance/management. Both of these require an effective police service and justice system. This is especially true in the short term when it is not possible to make a dramatic impact on the socio-economic aspects of the problem, particularly youth unemployment.

Recommendations

1. Controlling Corruption

Corruption in the Government, political parties and private sector facilitates the empowerment of organized crime and freedom of criminal action more generally. Government contracts are among the most commonly used means for the corrupt, mutually-beneficial transfer of resources to organized crime and corrupt officials. A robust anti-corruption strategy is a condition for more effective law enforcement and the achievement of most of the goals stated above.

- i) Action: Provide the Corruption Prevention Commission with the resources that are needed to ensure its independent capability to effectively investigate and prosecute breaches of the Act.
- ii) Action: Change the libel laws so that the Press may better expose corruption and crime.
- iii) Action: Promote transparency by making it a statutory requirement that all political parties be required to publish annual reports, disclosing the sources of their revenue by corporate and individual names.
- iv) Action: Promote transparency in contracts. All contracts and subcontracts, regardless of the sum involved, must be awarded only to contractors that are on lists approved by the Contractor General.
 - a. Contractors must be required to name themselves and to list all subcontractors on a notice board at the site during the period of construction and up to one year afterwards.
 - b. Each Ministry must be required to publish a list of all contractors and subcontractors who have provided services to it. This must be done annually.
- v) Action: The appointment of all officials to critical posts and positions of leadership in the public service (the Commissioner of Police, the Chief Justice, the Commissioner of Corrections, the Head of the Corruption Prevention Commission, the Contractor General) should have the approval of 2/3 of Parliament.
- vi) Action: Include Parliamentarians under the corruption prevention act.

2. Breaking Party Crime Links

As noted earlier, perhaps the most critical facilitator of high—end crime is the corrupt link with party functionaries. A special set of anti-corruption measures are therefore directed at weakening and breaking these links.

Recommendations:

- i) Action: That all "approved contractors" be required to have security clearance that indicates that their firms are not linked to organized crime.
- ii) Action: Any contractor who subcontracts to a criminal firm or a firm controlled by criminal elements should be "black listed" from future contracts.
- iii) Action: The code of conduct for politicians should include a prohibition of all conduct that reinforces crime and all forms of violence. This includes symbolic reinforcement such as attending the funerals of person of criminal repute, approvingly associating

with them in the constituencies and other settings, and performing songs that are supportive of violence on political platforms. These types of behaviour should by monitored by the Political Ombudsman.

iv) Action: Remove all persons with criminal connections from representational politics.

3. Degarrisoning

The party-crime links are strongest in the garrisons. Garrisons are a societal phenomenon that arose out of "tribal", political "wars" starting in the 1960s to control territory. The report of the National Committee on Political Tribalism states, "At one level a garrison community can be described as one in which anyone who seeks to oppose, raise opposition to or organize against the dominant party would definitely be in danger of suffering serious damage to their possessions or person thus making continued residence in the area extremely difficult if not impossible." This party monopoly is imposed with the assistance of party strongmen who are invariably leaders of violent criminal networks. Electoral results (75% of those voting for the candidate of a particular party) are taken as the usual method of identifying garrison communities. Forty years on, garrison communities are zones of exclusion, characterized by high levels of crime.

Recommendations:

- i) Action: Two-party agreement on degarrisoning.
- ii) Action: End contracts to garrison dons and their associates.
- iii) Action: End the practice of active crime dons making financial contributions to

political parties and/or selected party candidates. All garrisons constituencies to be required under pain of criminal liability to make public all contributions

- iv) Action: End the practice of active crime dons making financial contributions to political parties and/or selected party candidates. All garrisons constituencies to be required under pain of criminal liability to make public all contributions.
- v) Action: Disarm the garrisons.
- vi) Action: Accelerate the privatization of housing stocks.
- vii) Action: Enforce payment of utilities.
- viii) Action: Ensure roadway access within these communities.
- ix) Action: Strip garrison dons of all criminally acquired wealth.
- x) Action: Initiate a Truth and Reconciliation Commission.

4. Making the Police Force More Effective

The Police appear to have not benefited sufficiently from the numerous reports, reviews and plans that have been published over the past twenty years. The levels of distrust by the public, corruption (political and otherwise) and ineffectiveness are unacceptable.

Recommendations:

- i) Action: Depolitize the Police Force.
- ii) Action: The appointment of the Commissioner of Police must be made on merit by the GG on the advice of the Police Service Commission with <u>no</u> input from the Hon. Prime Minister or the Leader of the Opposition. This should be done after public hearings in Parliament. Chapter 5, Recommendation 7.3 of the Wolfe Report of 1993 is instructive in this matter.
- iii) Action: The Police Service Commission should act like a Board of Directors having to do with policy and results and the Police Oversight Authority should be amalgamated with the Service Commission. The Commissioner of Police should be required to do an annual report on the performance of the force for the Service Commission and a copy of this report should be laid in Parliament.
- iv) Action: Depolitize promotion in the force by establishing a promotion board for both Gazetted and other ranks, the recommendation of which the Commissioner cannot overrule but may appeal to the Police Services Commission for redress.
- v) Action: Establish an independent complaints authority to investigate all complaints against the Police including criminal activity.
- vi) Action: Upgrade criminal investigation and intelligence services. To that end, a new approach is necessary. An autonomous investigative Police service should be formed. This would be distinct from the JCF, with special responsibilities for investigating serious and high-end crimes.
- vii) Action: A strategic review of the Jamaica Constabulary Force (JCF) for the 21st Century.

I strongly recommend that both the Private Sector and the Government review the full report submitted in May 2006 referred to previously, as there are many other items in that report that cannot be fitted into the overview, especially the need for social intervention in many areas known to all of us that have become the breeding ground for criminals. It is absolutely necessary if success is to be achieved that the social issues be addressed with equal zeal as the other recommendations made in this paper.

5.1. The Justice System

The Jamaican Justice System was fully reviewed recently and I would refer all to the Jamaican Justice System Reform Report dated June 2007 which is a very good working document. It needs to be reviewed with its sponsors and implemented as quickly as possible. Jamaica will not see a significant reduction in crime and violence until the legal system is effectively reformed to provide Justice to all persons within the shortest possible time.

Recommendations:

- i) Action: That the report be implemented.
- ii) Action: That an implementation team be established quickly to agree on a time table for implementation of the recommendations in the report.
- 5.2. The Office of the Director of Public Prosecutions was not included in the review of the Justice System and the DPP and his office are a vital component of an effective Justice System.

Recommendations:

i) Action: Review the DPP's office with respect to staffing, resources and accountability.

Appendices

Cost Implications					
All estimates of expenditure were arrived at by liaison with the respective agency.					
Srl.	Recommendation	Action	Estimated Cost		
1	Fully resource Corruption Prevention Commission.	Budget support; current budget is \$28.5m.	Total budget required is \$60m.		
2	Amend Libel Law	Appropriate draft legislation to be produced by appropriate Government agency.	none		
	Promote transparency - disclosure of funding sources by parties.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
3	Promote transparency in contracts and sub-contracts.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
4	Include Parliamentarians in the Corruption Prevention Act.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
5	Parliamentary approval for senior public officials.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
6	Security clearance for approved contractors.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
7	Prevent subcontracting to a firm controlled by criminal elements.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
8	Code of Conduct for politicians.	Appropriate draft legislation to be produced by appropriate Government agency.	none		
Srl.	Recommendation	Action	Estimated Cost		

9	Two-party agreement on degarrisonizing.	Party action.	None
10	End contracts to garrison dons.	Appropriate draft legislation to be produced by appropriate Government agency.	none
11	End dons making contributions to political parties.	Appropriate draft legislation to be produced by appropriate Government agency.	none
12	Disarm garrisons.	Seek overseas technical and forensic assistance.	none; request overseas aid.
13	Accelerate the privatization of housing stock.	Appropriate action by Government agencies.	minimal
14	Strip garrison dons of all criminally-acquired wealth.	Appropriate draft legislation to be produced by appropriate Government agency.	none
15	Establish police-military posts within garrison communities, as required.	Operational mandate to Security Forces.	Funded from budgets.
16	Truth and Reconciliation Commission.		unknown, but could be assisted by grant and from overseas aid.
17	De-politizing the Police.	Agreement by HPM and Leader of the Opposition to be followed by constitutional amendment.	none
		Appropriate Government agency to action.	None
18	Police Service Commission to have increased authority.	Appropriate Government agency to draft legislation.	none
19	Establish Promotions Boards in the JCF.	Appropriate Government agency to draft legislation.	none
Srl.	Recommendation	Action	Estimated Cost

20	Fully resource the Police Public Complaints Authority.	Current budget is \$53.5m but additional budget support required.	Total budget approx. \$100m
21	Upgrade criminal investigation and intelligence services by approx. 600 persons.	Appropriate legislation to be drafted.	None
		Budget support	\$1.2b for pay, etc. \$10m for training.
22	Strategic Review of the JCF.	Similar to review of the JDF.	Grant Aid assistance.
23	Upgrade Mobile Reserve.	Strength to be increased from approximately 500 currently to 1500.	Approx. \$2.0b in addition to present budget.
24	Enhance the National Reserve.	National Reserve to be enlarged islandwide.	Current budget adequate.
		Presently employed full- time Reserves to be regularized, thereby allowing the National Reserve to have its full complement.	Additional \$1.3b required.
25	Review DPP's Office with respect to staffing resources and accountability.	To be reviewed by appropriate external body of specially-selected persons.	none
26	Community Renewal		To be determined
27	Youth unemployment		To be determined

Balancing the Budget/ Reducing Jamaica's Indebtedness



BALANCING THE BUDGET/REDUCING JAMAICA'S INDEBTEDNESS

PREPARED BY DONOVAN PERKINS

REDUCING JAMAICA'S INDEBTEDNESS

Jamaica's indebtedness is a key and severe limiting factor in our collective desire to achieve developed nation status by 2030. Balancing the country's fiscal budget is a necessary structural objective required for a "credible debt reduction plan" that includes measures to improve tax revenues and contain expenditure growth.

If we are to achieve developed nation status in just over two decades, it is imperative that the genesis begins in 2008.

WHERE ARE WE TODAY

By the end of this fiscal year, 2007/08, Jamaica's National Indebtedness will likely top one trillion dollars.

J\$1,000,000,000,000 of Debt

SETTING TARGETS

The international standard for measuring indebtedness is a country's debt-to-GDP ratio. Jamaica's debt-to-GDP at the beginning of 2007 was 136%. Accordingly, the success of our debt reduction plan should be measured by the reduction of our Debt to GDP ratio.

A possible target would be to reduce the Debt to GDP ratio to 100% with X years. This target and timeframe would need to be modeled. To put this target in perspective, Jamaica's debt-to-GDP ratio was 84% in 1997.

Targets set should bear in mind that small deficits (1.0 - 1.5% of GDP) may be tolerable to the extent that these deficits are created by GOJ expenditure that improves economic and social conditions that supports and sustains GDP growth and strengthens the tax base. Debt can increase on an absolute basis while falling on a relative basis <u>IF</u> the economy and tax base are both healthy and growing, leading to an improving debt-to-GDP ratio.

OUR HISTORY

Schedule 1 highlights the country's debt-to-GDP ratio since 1984. Over this period, the ratio ranges from a high of around 215% in 1984 to a low of approximately 84% in 1997.

Schedule 2 highlights our Debt-to-GDP ratio and the massive growth in Jamaica's absolute debt levels over five-year increments between 1980 and 2006.

HOW DID WE GET HERE?

Since independence, Jamaica has experienced fiscal deficits in 35 of its 44 years. See Schedule 3. Other significant factors influencing this indebtedness include:

- The financial sector crisis in the 1990s and subsequent bail-out
- The continuing build-up in our Net International Reserves since the mid-1990s
- Capital intensive, loss-making entities under government control

At the beginning of 2007, Jamaica's total debt was \$926 Billion with Internal Debt of \$537 Billion and External Debt of \$389 Billion.

COMPARING WITH OTHER COUNTRIES

Jamaica is not alone in the magnitude and growth of its sovereign debt problems. Research conducted indicates that 14 Caribbean nations are among the 30 most indebted countries, with seven having the undesired distinction of falling in the Top 15 - Belize, Dominica, Grenada, Guyana, Jamaica, Antigua/Barbuda and St. Kitts/Nevis. All these countries reported Debt-to-GDP ratios exceeding 90%. Jamaica at 136% currently ranks 4th in the world behind Lebanon, Japan and Seychelles.

On the other hand, Trinidad and Barbados, both with investment grade ratings for their debt instruments, have 2006 ratios of approx. 37% and 87% respectively.

THE IMPACT OF HEAVY INDEBTEDNESS

Schedule 4 captures graphically, the debilitating and severe impact of the strain of debt servicing on our national budget, year after year without exception since 1990.

The negative impact of this growing indebtedness has manifested itself in several ways that have had both short-term and long-term negative effects. The debt represents claims on current and future tax receipts, thereby creating an environment characterized by:

- Vulnerability to shocks
- High domestic interest rates and the "crowding out" effect
- Competition for scarce resources by GOJ ministries
- Shift from real investments to financial investments by the private sector
- Inevitable under-investment by GOJ in capital and social infrastructure leading to lower productivity levels and un-competitive businesses and industries
- Resource constraints create short-term focus on month-to-month survival and less focus on long term strategies to grow the economy

• A lack of confidence in the future

KEY FACTORS TO ACHIEVE DEBT REDUCTION / DEVELOPED NATION STATUS

- 1. Eliminate Fiscal Deficit
- 2. Grow the Economy
- 3. Expand the Tax Base
- 4. Re-focus Government on Core Functions
- 5. Treasury Management
- 6. Re-build Confidence

Control / Eliminate Debt Growth exceeding Fiscal Deficit

Schedule 5 reflects growth in Jamaica's national debt that has consistently and significantly exceeded the annual fiscal deficits. In reviewing, the last fiscal year, the dollar value of the total public debt at March 2007 rose to \$923 billion from \$847 billion at March 2006, an increase of \$76 Billion, while the deficit for 2006/2007 was \$38 billion, twice the central government deficit.

In summary, the country's indebtedness has increased at a much faster rate than even the already high official central government deficits due to continued heavy off-budget government expenditure, which have not received sufficient scrutiny.

The central government fiscal deficit was originally projected to be just over \$35 billion or 4.5% of GDP this 2007/08 fiscal year. A similar sized deficit in the financing of public bodies and off-budget expenditure would bring the debt to one trillion Jamaican dollars by the end of this fiscal year, even if we met the fiscal target for central government.

Cauterize loss-making entities

A significant contributor to our indebtedness is from loss-making entities such as Air Jamaica, the Sugar Corporation of Jamaica and JUTC to name a few, so even if such entities are not sold, the losses must be cauterized as a matter of priority for a credible debt strategy to succeed.

Reducing Expenditure

From a **taxpayer** standpoint, the least painful means of dealing with the Budget Deficit is to cut Government expenditure. The starting point should be a full review of the public bodies consisting of statutory entities, government companies and authorities.

There are two schools of thought on the real value of the Memorandum of Understanding ("MOU") executed between the GOJ and the Civil Service Unions. The current wisdom suggests that limiting salary increases and guaranteeing job security through negotiation, is an effective way of managing growth in public sector wages.

An emerging school of thought believes this is ineffective as the MOU builds in structural inefficiencies, induces underperformance, fixes costs and ultimately delays an eventual, inevitable and more expensive re-structuring of the civil service.

This suggests an urgent debate on aspects of the MOU and the options available in full and frank consultation with the relevant parties.

Public Sector Pension Scheme

The Public Sector pension costs have accelerated moving from \$5.4 billion in 2002 to an estimated \$11 billion this financial year. Unlike other pension schemes, public sector employees do not contribute to this retirement benefit. The full burden therefore falls on the GOJ who collects it from the taxpayer. This is unsustainable and prudence suggests that GOJ employees should contribute in some form to their future pension benefits. A contribution formula would be appropriate in the context of a larger consultation.

Use Petrocaribe funds to reduce debt costs

Under the **Petrocaribe** agreement, the Venezuelan Government converts a percentage of our oil purchases to US\$ loans at 1%. The IMF estimates the savings (if the money is used to pay down expensive debt) at \$3 billion for this year growing at \$1.5 billion every year. While this does not reduce debt, its impact on interest costs is considered material.

Debt Relief

The UK Coalition's Jubilee Debt Campaign is planning to scale up its popular debt campaigning in 2008. They have been very successful in getting debt relief for Africa. With their 10-year anniversary approaching since they started the UK debt cancellation campaign, they have signalled an interest in adding Jamaica to their upcoming debt relief along with European Debt and Development Network ("Eurodad"), another agency interested in working on debt relief for Jamaica.

GROWING THE ECONOMY

It will require a much higher rate of economic growth, than the current rate of 2-3%, to grow our way out of our debt problem. In the words of Vito Tanzi, a respected IDB economist and tax expert speaking at a recent seminar in Jamaica, "With growth of around 6% or higher, our debt would just melt away".

Much lower interest rates are a necessary but not sufficient condition to encourage conditions facilitative of growth. Jamaica's high debt levels and the continuing heavy demand on private sector savings to finance new borrowing as well as re-financing existing debt suggests the importance of eliminating fiscal deficits if declining interest rates are critical.

Offshore financial services are a natural compliment for well-developed banking and telecommunications infrastructure, existing legal and accounting skills, and an adaptable regulatory environment.

Tourism enhanced by an expanded gaming industry and convention facilities can fill out the obvious gaps in our services portfolio.

Energy, Infrastructure and Environmental Policies are important to developing and maintaining competitive industries that are sustainable in the medium to long-term.

Crime is a severe limiting factor and the leadership, organizational capacities and capital resources to tackle this problematic area are critical to the national psyche and confidence.

Development and transformation of our emerging workforce in a knowledge-based service economy requires a re-calibration of basic education and training for the future.

EXPAND THE TAX BASE

Tax Reform & Tax Amnesty

Over the last 10 years, tax collections has grown at a compounded annual rate of 14%, higher than inflation and GDP growth combined, suggesting some success in expanding the tax base. However, research also suggests that 30 - 40% of Jamaica's GDP remains underground, unrecorded and under-taxed.

In 2003, the Matalon Committee was established to look at tax reform. Its report has been completed but implementation of its ideas remains largely overlooked. At the 2007/08 budget presentation, the former Finance Minister made the welcome announcement of the intent to consolidate all statutory payments, a recommendation arising out of the work of the Committee.

The Committee stayed away from the issue of significant tax reform being accompanied by a tax amnesty. Amnesties have had good successes and dismal failures in several countries and significant tax reform is believed to be an important platform on which to launch a credible tax amnesty with the objective of boosting revenues and encouraging more persons and businesses to enter the formal economy.

RE-FOCUS ON EFFICIENT CORE FUNCTIONS

Sale of Assets

There are still many non-core Government enterprises and assets. Whilst it is appreciated that the disposal of capital assets is a one-shot windfall, in the current dire circumstances, divestment:

- Provides financial resources
- Removes the need for GOJ monitoring, management and administration
- Should result in more economic activity and prospects for the asset
- Eliminates future financial resource allocation

Estimates suggest that US\$300 to \$400 million can be raised over a 24-month period through the sale of GOJ interests (part or whole) in entities that require heavy capital expenditure or are not critical to GOJ's strategic goals.

TREASURY MANAGEMENT

Under this heading are brief discussion points on the need to:

- Improve coordination and communication between BOJ and MOF's DMU
- Reduce exposure to VR Debt
- Re-visit multilateral financing

BOJ / MOF COMMUNICATION

From time to time, the market suspects an apparent communication gap between these state apparatuses, the result of which is a significant negative impact on the fiscal accounts. It is believed that better communication could lead to mutual achievement of objectives at a reduced cost.

EXPOSURE TO VR DEBT

Schedule 6 indicates the growing exposure to floating rate debt.

While the GOJ must raise its funding to finance its current deficits as well as re-finance existing obligations outstanding, the absolute and relative level of floating rate debt must be adjusted to reduce exposure to volatility.

ACCESS TO MULTI-LATERAL FINANCING

As discussed earlier, several Caribbean nations are recognized among the most heavily indebted countries as measured by their debt-to-GDP ratios. Arising out of a recent trip to Washington, the Jamaican Finance Minister has been asked to represent Caricom's interests in relation to greater access to multilateral financing opportunities.

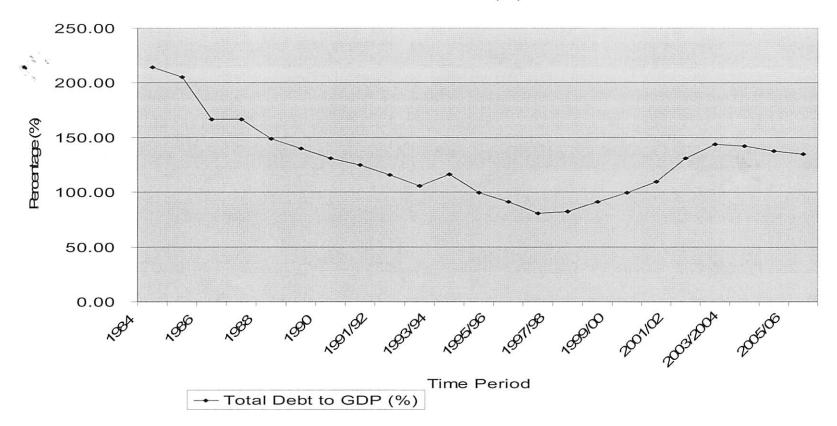
The current structural problems may induce from the multilateral agencies, interest rate and loan structure terms based on the project profiles (infrastructure, education, health) to fit within the realities of our economy and its budgetary constraints. It is also worth noting that multilateral financing often includes technical advice and support at little or no cost.

Money is fungible, so a strategy of developing projects that qualify for multilateral financing and re-allocate existing resources to other important projects that fall outside qualification is workable.

Debt to GDP

Schedule 1

Total Debt to GDP (%)

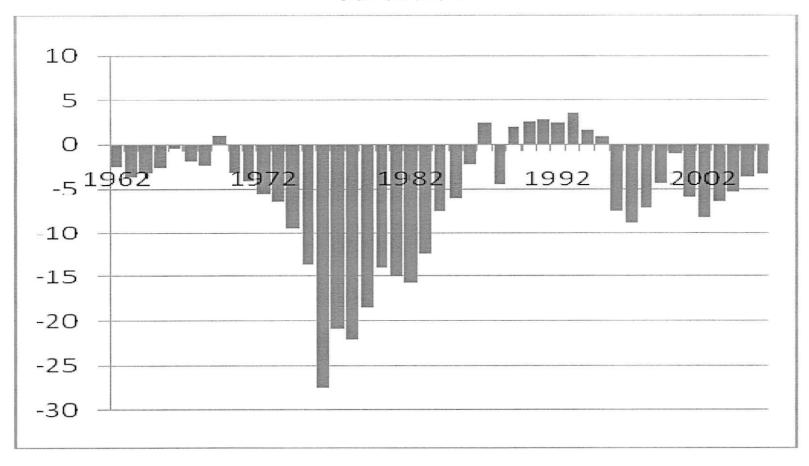


Schedule 2

	Debt/GDP	Total Debt
1980	107%	6B
1985	202%	26B
1990	129%	43B
1995	97%	197B
2000	101%	341B
2005	137%	827B
2006	136%	926B

Fiscal Balance, Jamaica 1972-2006

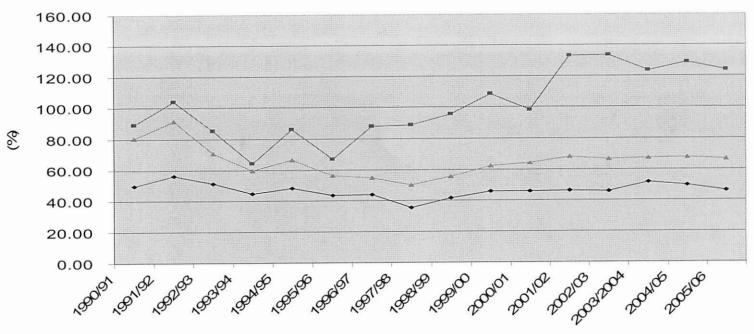
Schedule 3



Debt and the Fiscal Budget

Schedule 4

Debt and the Fiscal Budget: Various Ratios



Time Period

- Total Interest Payment to Recurrent Expenditure
- Total Debt Service to Revenue
- Total Debt Service to Total Expenditure

Schedule 5

	Deficit	Fiscal	Increase
	to GDP	Deficit	<u>In Debt</u>
2001	3.8%	\$21B	+151B
2002	7.7%	\$35B	+81B
2003	5.8%	\$29B	+99B
2004	4.8%	\$28B	+91B
2005	3.3%	\$21B	+64B
2006	5.3%	\$38B	+98B

Local Debt Structure

Schedule 6

	Fixed	Floating	Ratio	
2000	64	124	34%	66%
2001	130	165	44%	56%
2002	168	183	48%	52%
2003	242	175	58%	42%
2004	263	183	59%	41%
2005	226	254	47%	53%
2006	214	322	40%	60%

Education and Training for Transformation and Competitiveness

National Planning Summit November 2-4, 2007



EDUCATION AND TRAINING FOR TRANSFORMATION AND COMPETITIVENESS

Prepared by: M. A. Hinchcliffe, C.D., M.Sc., B.A.
President
Jamaica Employers' Federation

EXECUTIVE SUMMARY

This position paper focuses on Education and Training for Transformation and Competitiveness. It lacks recommendations, as these will be the outcome of the Summit's small group deliberation.

Education has been the subject of much criticisms, debacle, debates, multiple studies, and conventions. This is yet another attempt to contribute to the discourse that incidentally is placed high on the new government's agenda. The document cites the JLP's Manifesto with its programme LEARN, research carried out by CAPRI, Report of The Task Force on Educational Reform (September 2004), Vision 2030 Draft Sector Plans on Education and Labour Market and Productivity Task Forces, and other research sources including the Internet – OECD/UNESCO Report on Financing Education and Business New Zealand's approach.

The situational context (chapter 2.0) adverts to the dictates of Globalization, CSME and GATS agreements and the attendant commitments and international and regional trade agreements with common rules and policies.

The historical context (chapter 3.0) sets out a series of major initiatives from pre-independence to the present with some reported successes, although the education system remains largely dysfunctional.

Goals, past, present and future (chapter 4.0) as set out in sector development plans, builds on work already undertaken with a view to making education and training the key drivers of the country's competitiveness, showcasing its stock of human capital potential in labour markets.

Key issues and challenges (chapter 5.0) raises questions on the very exercise of education transformation. It asks the pertinent questions that should challenge greater foresight in our advance. These include what is the purpose of education and who is it for?; what does the employer require from the graduate?; how and who is responsible for the transition from work to school?

Priorities (chapter 6.0) speak to integrating education and training into national development and economic strategies, drawing on the expected outcomes set out in the Task Force Report. Chief among these are changes in curriculum from basic to tertiary levels and for teacher training and aligning skills development and training with industry needs

Financing Education and Training (chapter 7.0) speaks to investment that will promote economic prosperity for the nation rather than only success of individuals. Consequently, investment by both government and private sector mechanisms need to be further explored. Among the points raised are who pays and how much is to be invested.

Public/Private Collaboration (chapter 8.0) sets out the role of stakeholders in this regard. Government alone cannot undertake transforming the system to produce the well educated,

trained, flexible and technologically adept workforce required to match an economic policy for investment and job creation.

The conclusion(s) (chapter 9.0) support the fact that a partnership between the government and the private sector, guided by clearly defined roles and responsibilities, backed up by strong political will is the way to go to achieve the objective of Learning and Education Reform for Nation Building (LEARN). Recommendations are not offered as these will come from small group deliberation at the Summit.

TABLE OF CONTENTS

Executive Summary

1.0	Introduction	••
2.0	Situational Context Background	1
3.0	Historical Context	. 2
4.0	Goals – Past, Present, Future	. 3
5.0	Key Issues and Challenges	. 5
6.0	Priorities - Integrating Education and Training into National Economic Strategies	. 7
7.0	Financing Education and Training	. 7
8.0	Public/Private Collaboration	8
9.0	Conclusion	9

1.0 INTRODUCTION

This position paper focuses on the alliance between Education and Training for transformation and increasing competitiveness and productivity for sustainable development. The position posited in this paper draws upon the aspirations of the JLP manifesto, review of the education task force reports, sector plans, consultations and more recently, findings from research conducted by the Caribbean Policy Research Institute (CAPRI).

As a fundamental objective, this paper has cut through the plethora of status reports and plans for education reform and presents a situational context. Any partnership with government must ultimately foster quality education and training which then supports sustainable employment resulting in a better quality of life of all Jamaicans. It is the commitment of this organization to inform government's approach to integrating education into their five year development plans, with the hope of achieving measurable results at the completion of this term.

2.0 SITUATIONAL CONTEXT

2.1 BACKGROUND

It is argued that economic growth and development must be built on the platform of education and skills training. This cannot be overemphasized, particularly in the climate of globalization which enshrines education in numerous commitments and international and regional trade agreements. There is a thrust toward Education For All (EFA), as captured by, The Millennium Development Goals, The General Agreement on Trade in Services (GATS) and the Caricom Single Market and Economy (CSME).

Over the last decade, international development and cooperation has seen education as the linchpin to achieve sustainable development and poverty reduction. Closer to home, our Caribbean neighbours are transforming their education systems, e.g. Barbados and Trinidad, within the ambit of a CSME. With unrestricted movement of goods, services, skills and capital throughout the region, it is hoped that there will be unprecedented opportunities for new businesses and job creation.

The research is unequivocal: education and training can lead to higher productivity and improved quality of goods and services. To this end, they must be deemed crucial factors to enhancing international competitiveness and fostering a climate conducive to strong and sustained economic growth.

3.0 HISTORICAL CONTEXT

In Jamaica, dating as far back as 1835 when as a British Colony, Jamaica received financial assistance under the Negro Education Grant for education of ex-slaves. This

was entrusted to several religious bodies with directives from the colonial legislature. This unfortunately established a pattern (which still exists today) where two types of settings emerged – elite schools for children of the gentry who were expected to occupy professional careers and publicly financed schools were attended by those who would become artisans, semiskilled and unskilled labourers. Education functioned as the most powerful gate keeper of the status quo in the social fabric of the country.

On another historical note, the first Minister of Education was appointed in 1958 with full responsibility for education matters. With independence in 1962 came the challenge of introducing new policies and programmes. This commenced the process of reforming the education system with successive governments bringing their own plans in accordance with their political agenda.

Since independence, there has been almost a frenzied movement to reform the education system with plans and programmes directed towards a well intentioned "Education For ALL" outcome. In this regard a number of major initiatives have been carried out including: -

- The Programme for the Advancement of Early Childhood Education (PACE)
 1980s
- GOJ Primary Text Book Programme (PTP)
- GOJ/ UK-ODA Secondary Schools Text Book Project
- The School Feeding Programme (SFP)
- The GOJ/IBRD Reform of Secondary Education (ROSE)

The five year plan, 1990-1995 was followed by the new five year education plan 1995-2000. Both plans did not reap the desired benefits as high absenteeism practically among boys, linked to socio-economic factors devalued the school system, leading to other interventions such as:

- The GOJ/DFID Jamaica All Age School Project (PEIP) (Emphasis on community/ school participation) 2000-2003.
- GOJ/IDB Primary Education Improved Project (PEIP) (National Assessment Programme replaced Common Entrance Examination).
- Grade Six Achievement Test (GSAT) (to place grade six completers into grade seven of secondary and comprehensive schools).
- The GOJ/USAID New Horizons for Primary Schools (to increase level of literacy and numeracy of students in 72 selected primary schools throughout the country).

Despite all these interventions the education system continues to be dysfunctional. The newest initiatives are captured in the Education Transformation Task Force Report (2004) and the Early Childhood Education Development Report. And with the new

administration's LEARN proposal, it is hoped that real gains accrue from revivified effort.

4.0 GOALS – PAST, PRESENT, FUTURE

Preparation of the vision 2030: National Development Plan includes an Education Sector Plan as well as a plan for Labour Market and Productivity. The education sector plan which builds on work already undertaken, cites education and training as key drivers of the countries competitiveness. It also proves that ¹the educational level of a country is a determinant of the stage of economic development and also the country's potential for future growth. As such Jamaica ranks 104th on the HDI as compared to Ireland, Barbados, Singapore and Trinidad and Tobago who rank 4th,31st,25th and57th respectively.(UNDP, 2006)

Investment in education is important, enabling the development of each person's full potential and consequently creating a competitive workforce. Education is therefore a social indicator of a country's economic development and the stock and quality of its human capital.

The private sector being in the business of investment sees human capital no crucial to maximizing returns. Our prime concern therefore, is the calibre of output from the education system. Do they have the requisite life skills, technical and vocational skills, knowledge of organizational behavior, apt communication skills, ability to think critically, resourceful and innovative? As a goal, the education system and skills training centres must seek to reorient students to modern and relevant technology that facilitates the production of high quality service and goods..

To cite the Labour Market and Productivity Task Force the 2030 vision -2... Make Jamaica the place of choice to live, raise families, work and do business" and proposes its vision as 3. A labour market with a trained, educated, productive workforce attractive to quality job creating investments, operating in a manner that is efficient, harmonious and mutually beneficial, sustaining a prosperous society and economy." The sector plan seeks to attain this vision inter alia:

- a highly qualified workforce;
- higher levels of human and social
- formation and trust:
- full and satisfying employment in a thriving economy; and
- innovative globally competitive enterprises

The JLP manifesto which forms the new government's approach to education and training cites the failures and weaknesses of the past attempts at transformation. They have proposed a programme for remediation and advancement under the theme –

¹ 1st Draft Education Sector Plan; Vision 2030: National Development Plan - p. 3.

² 1st Draft Labour Market and Productivity Task Force Sector Plan; Vision 2030: National Development Plan – p. 3.

³ 1st Draft Labour Market and Productivity Task Force Sector Plan; Vision 2030: National Development Plan – p. 3.

LEARN – Learning and Education Reform for Nation Building. The aim is to deliver 4"a comprehensive programme to increase funding, reform curricula, improve school infrastructure and teacher training in order to produce more literate and educated students.

í

The following quotations embody what is to be achieved through "LEARN": -

- Improving early childhood education
- Strengthening primary education
- Reforming secondary education
- Increasing funding for tertiary education
- Removing illiteracy from the school system
- Expanding training opportunities

(See manifesto for the draft of plans, programmes and opportunities which engages all levels of society, government agencies, non government organizations, the private sector and partners.)

It will augur well for the success of this summit if the stakeholders are reminded of the absence of occupational needs assessment and reliable labour market information. These two considerations are the crux for ascertaining, what are the training needs, given the current industry demands. According to the STATIN report 2007, only 16.9% of those persons with Vocational Certificates and Professional Degree were part of the labour force. Further persons who benefit from the apprenticeship and on-the-job training do not benefit by way of sustained employment. This category only accounts for a mere 6.9% of the employed. This statistic is even more alarming when we consider this category is primarily young school leavers.

The position of the PSOJ is that there is a clear mismatch between the skills required by employers to produce the goods and services that are in demand and qualified persons finding the jobs they were trained to do. Mokhtar, Zaky and El- Faham (2002), contend that skills development and training programmes should be scientifically based on sector/ industry needs.

Part of the country's problem is that those educated and higher skilled persons who tend to be more productive are unable to find work in the country. The results are continued brain drain and low productivity. The JPC (2006) figures for productivity are an indictment to the country's state of affairs with a poultry 0.04% productivity rate. A 2003 World Bank study found that to the 367.6% of tertiary educated Jamaicans migrate to the USA. The high rates of tertiary educated migration indicate that the numbers in this segment who live and work abroad far exceeds the numbers living and working at home.

⁴ JLP Manifesto p. 3

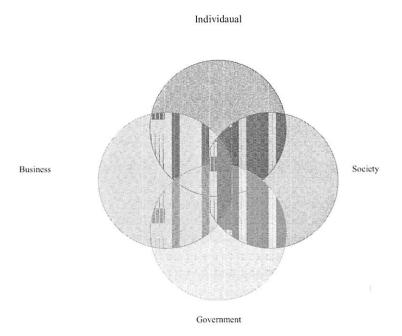
⁵ Adams, R. International Migration, Remittances and the Brain Drain, World Bank, 2003

5.0 KEY ISSUES AND CHALLENGES

If education and training for transformation and competitiveness is to be achieved even partially over the next five years, some provocative questions will first have to be raised and discussed. The purpose of which is not to bemoan previous attempts at advancing the trajectory of the education sector but to plot a new course that attains the results we all desire for our society

The National Planning Summit is directed to questions on the key issues and challenges set out below.

What is the purpose of education and who is the target group?:-



Secondly, what are the targets that explicate transformation? Is it a literacy improvement among primary school leavers, where 35% were found to be illiterate (PIOJ, 2006); Is it reducing the teacher pupil ratio from its current 1:28 to 1: 20 in the next five years? (UNESCO, 2005); Is it increasing the percentage of students who go on to complete third level education from 26% to 45%? (ESSJ, 2006); is that we should demand more qualified teachers at the primary and secondary levels where only 20% are trained graduates?(MOEY, 2006).; Is it reducing youth unemployment which stands at 23.6% more than adult unemployment?(ESSJ,2006); Is it a reallocation of funds from the tertiary level to the primary level?

Thirdly, what does the workplace require from the education system? Certainly, it does not require a turn key person. Instead, the new graduate should possess some core skills

including, literacy, numeracy, reasoning, computer savvy, problem solving, ethics, honesty and integrity and have the capacity to be trained in industry specific areas.

Fourthly, should the education system produce the above, would the company's/ organization's be better able to take responsibility for upgrading workplace specific training, given the rapid pace of technological advances??

Another burning question is: who is really responsible for the transition from school to the world of work? And what is a preferred methodology? Already, there are a number of initiatives which have not yet shown much appreciable success. Even though HEART/NTA in 2006 had an output of 25, 368 trained persons, how many of these persons are incorporated into the labour force. With an job demand for high level skills increasing from 13% to 19% between 1996 and 2006, are the training centres matching pace with the relevant and quality of skills required to match demand with supply.(STATIN, 2006)

Noteworthy to this process, is the relationship between economic strategies including growth areas that are to be pursued and the manpower projections to which the education and training system have to respond? What are the critical skills sets that investors will require? The answer to these questions (not exhaustive) on the key issues and challenges will inform the process of transformation in regards to education and training in the broad areas of:-

- Integrating education and training into economic strategies for sustainable development
- School leadership and management (governance)
- Resource requirements investment in education and training
- Linking industry, enterprise and academic apprenticeships
- Making technical and vocational education attractive
- Response to labour market and employment policies
- Special needs adult education (e.g. for those in the informal economy to overcome barriers to education and training).

It is noticeable that this paper does not dwell on early childhood education, care and development as already there is major achievement in this sector in that there is almost universal enrollment of children 4-6 years old. The exception is that the quality of the education and the care provided needs improvement. The Early Childhood Commission is in place with a clear mandate to regulate early childhood institutions.

(See Task Force on Education Reform – Early Childhood Education, Care and Development Sector Report. 2005).

6.0 PRIORITIES

5.1 INTEGRATING EDUCATION AND TRAINING INTO NATIONAL AND ECONOMIC STRATEGIES

The reform of the education system is well documented (see Task Force Report). However, there is the pervasive missing link between a transformed education system and education and training for transformation. The primary focus of the new system must be to adequately prepare students and trainees for the world of work. The system must be closely aligned to the labour market to bring about competitiveness and higher productivity for sustainable economic growth.

Moving forward, we must be guided on-going basis by the country's skills/human resource development requirements based on current and projected economic and social developmental activities, including government's development plans and priorities, private sector plans for new capacity building/expansion and identified investment/revenue opportunities. This new platform for strategising must henceforth recognise technological trends and the ascendance of knowledge as the driving force in the achievement of economic sustainability in the 21st century.

GOALS

- Re-engineer curriculum to reflect the needs of society and industry, from childhood education to teacher training.
- Creation of synergy between skills development and training programmes and industry needs.
- Co-ordination between education policy makers and economic planners to ensure that students are prepared for the world of work.

In order to meet the requirement for new forms of work organizations and changing employment trends – globally, domestic and educational attainment, the government's proposed "LEARN" is laudable and with prioritizing the elements, in particular resources may strengthen the path to the needed transformation of education.

7.0 FINANCING EDUCATION AND TRAINING

It is recognized that the key role of education is brought into focus by economic trends, globalization, demographic trends and human rights based development. Education is now increasingly considered as investment to promote economic prosperity for nations rather than success for individuals.

The OECD/UNESCO report on World Education Indicators (WEI) - Financing Education Investments and Returns cites resource constraints for expansion of education

and that governments alone cannot cope. The question from them is WHO PAYS FOR EDUCATION, when the mentioned transformation calls for expanding education systems and maintaining access which is inextricably linked to development? This calls for education to be an integral component of investment by both the government and the private sector. The following financing mechanisms needs to be explored: -

- How much is to be invested? See Task Force Report
- How do governments support schools?
- What is the role of the private sector?
- What contribution can be expected of students and households?

(Note the JLP Manifesto's only adverts to financing tertiary education).

(Reference Task Force on Education Reform – see Finance – p. 66-78)

8.0 PUBLIC/PRIVATE COLLABORATION

Public/Private collaboration coupled with political will are the main ingredients in providing quality, relevant and necessary education and training. The areas set out below are worthy of consideration in Jamaica's context to strengthen the role of stakeholders in education.

- Clearly defined projects outlining involvement and responsibility.
- Quality assurance and monitoring.
- Governance participate on boards and committees.
- Best Practice sharing expertise.
- Partnerships between schools/colleges and business for curriculum development and on the job training/apprenticeship (real life experiences).
- Financing research, e.g. Return on Investment (ROI) in education and training.
- Facilitate improved interaction between schools and communities (adopt a school).
- School nutrition initiatives.
- Career advice Minimize the stigma associated with Technical/Vocational Education. Foster appreciation of employment and entrepreneurship and the benefit of long term jobs with defined career structure in Technical/Vocational areas.

With public/private collaboration, the education system will create a well educated, trained, flexible and technologically adept workforce to match an economic policy for investment and job creation.

9.0 CONCLUSION

The Partnership For Progress (PFP) between the Government and the Private Sector forms a solid base for collaboration on economic growth and sustainable development. Education and training plays an integral role in transformation and competitiveness as can be seen at work with our neighbours – Barbados and Trinidad and further a field such as Ireland, New Zealand, Singapore and Finland.

Reviews of the numerous case studies indicate that collaboration between the government and the private sector underpinned by strong political will and a clear strategic vision for economic development can manifest real gains. To reiterate the assertion in the Profile of the Ideal Jamaican Worker, the PSOJ would like to see the output from the education transformation process being a strong educational foundation and qualified youth able to quickly make the transition from school to the world of work. Additionally, we contest that there should be broadened partnership with the parents or guardians and the community. The old adage remains true, "It takes a village to raise a child."

Since independence, Jamaica has enunciated ambitious plans and targets geared towards education for all, constrained only by lack of resources. A glaring example is set out in the report on the Task Force on Educational Reform (2004) where an incremental \$219 billion is required to finance education over the next 10 years. That is about \$22 billion annually on top of the over \$30 billion already allocated. A variety of proposals for financing education have been put forward.

Among the priorities will be the integration of education and training into national development and education strategies. Firstly, there must be coordination between economic and education planners. This must include among other things discussed above, the learning environment, classroom processes and class size – pupil/teacher ratio. The Government's proposed LEARN must first prioritize the elements, including identifying tangible resources to make it happen with the political will to shift resources within and without the education sector.

The Private Sector in collaboration with the Government through the Partnership For Progress must be guided by clearly defined roles and responsibilities for participating in the transformation of education and training as the linchpin for economic growth and sustainable development.

(Note: Recommendations will come from the working group at the Summit).

Reform of Land Titling in Jamaica

National Planning Summit November 2-4, 2007



REFORM OF LAND TITLING IN JAMAICA

PREPARED BY WAYNE CHEN

REFORM OF LAND TITLING IN JAMAICA:

Unlocking Dormant Wealth

Benefits of Formalising Land Ownership

It has been shown in many countries that widespread, secure, formalised property rights bring substantial economic and social benefits¹:

- Mobilisation of dormant capital, particularly for the poor. The non-formalisation of title and the non-fungibility of property rights act as a ceiling on the capital that the "owners" can derive from their assets;
- Encouragement of the development of land, buildings and infrastructure because
 property owners can more fully realize and trade on their financial investment and
 potential investors have access to a much larger pool of information on economic
 assets;
- Support of financial market development where an expanded market with many new owners who can now use their property as collateral for mortgages and other financial transactions;
- Improved land management and administration, resulting in a larger tax base and better planning and the implementation for social services, public utilities etc.;
- A greater sense of community where owners have a stake in protecting the value of their properties leading to a reduction in crime and increased infrastructure development;
- A general increase in economic activity and employment as property owners borrow money to develop farms and small business enterprises. This has been shown to have a profound impact on women in particular as many become economically empowered;
- Promotion of social equity Ownership of property is linked to freedom of choice and wealth creation, land therefore empowers women to actively engage income generating activities which brings about changes in the sexual reproductive choices and life-cycle of women²;
- The reduction of the informal sector.
- Lessening of the social welfare intervention required of the state.

The widespread formalisation of property rights has also been linked to higher standards of health and education, lower birth rates and decreased infant mortality.

Durand-Lasserve, Alain and Harris Selod. "The Formalisation of Land Tenure in Developing Countries Prepared for World Bank's 2007 Urban Research Symposium. April 14, 2007. http://www.worldbank.org/urban/symposium2007/papers/durand_lasserve.pdf

² Department for International Development (DfID) 2002. Country Strategy Paper. http://www.dfid.gov.uk/pubs/files/cspjamaica.pdf

If Jamaica is to pursue a developmental path that would benefit from giving its citizens greater access to credit that depends on property as collateral, than a less-costly, more efficient transfer mechanism and tax structure plus well-defined, secure, and transferable rights to land will be required.

Increased tax revenue under a more formalised land tenure arrangement is often the reason advanced first for formalising land-titling arrangements. It is the excessive focus on this aspect and the high costs and complex process associated with registering titles that have acted as disincentives to formalisation.

Any national initiative to implement wide scale land-titling needs to focus on the benefits but should also create a process that is simple and affordable.

Land Tenure in Jamaica

In Jamaica, citizens without land titles fall into three broad categories:

- 1. Rural poor on family land
- 2. Owners through unregistered informal land agreements/transactions
- 3. Urban poor in informal settlements i.e. squatting

The rural land market is made up of 650,000 parcels of land of which 45% have no legal title and many of the remaining 55% hold flawed titles mainly due to unrecorded arrangements³.

Family Land

In many rural communities parcels of land are passed down within a family, generation to generation, without formally registering title for the whole or the parts "owned" by individual members. Land is jointly inherited by the next generation. Inheritors in turn do not lose their rights through absence and resale is inhibited. In most cases, individual ownership is not in dispute and only lack formalisation. The wide scale lack of proper registered titles has served as a hindrance to rural development.

Unregistered Transactions

There is a significant market where land is subdivided, bought and sold with little regard for the legal formalities. This has been mainly due to the high demand for land coupled with the high costs and slow process associated with formal transfer. Attempts have been made to reduce transaction time and cost and there has been investment in modern technology but successive state initiatives have had very limited success. The 2005 IDB report on LAMP (Land Administration and Management Programme) estimated that the registration and titling of a modest property could amount to **J\$300,000**.

³ IDB/LAMP Report.

Informal Settlements / Squatting

There are currently 595 squatter settlements of which 75% are on government lands compared to 15% on privately owned land⁴. This suggests that it is within the government's ability to deal with the majority of the problem. Some of the highest concentrations of squatter communities were recorded in St. Andrew (16%), St. Catherine (11.6%), and Clarendon (11%). 82% of all squatter settlement are urban (see Fig 1).

According to Tindigarukaru,⁵ the incidence of squatting on captured land is on the increase, suggesting that government policies are not effectively reaching its entire intended target, the poor, and that the land market is inaccessible. These informal settlements suffer from decaying physical infrastructure, poor service provision and land is often populated beyond its carrying capacity. In many instances they constitute environmental hazards as unsound practices lead to pollution and soil erosion.

Public Sector Programs Addressing Land Tenure - History

The following is an outline of the major Government programmes relating directly to the issue of land tenure and usage:

- a. Land Registration Act (1867) This act was promulgated less than 30 years after Emancipation. Its purpose was to register all lands in the island; establish a Lands Department to register all lands in the island; collect taxes from all land owners including squatters; and make it possible to evict illegal possessors of land and forfeit land back to the state.
- b. The Land Settlement Scheme 1940s -was set up to sell or grant title to people who would otherwise have been landless. The Government would buy land and resell it, complete with water infrastructure (springs, streams, ponds or pipes). This scheme was a recommendation of the Moyne Commission which identified landlessness as a major problem. This scheme was primarily aimed at rural residents and geared towards increasing the amount of cultivated agricultural land. Due to long delays in issuing, some of the original purchasers/allottees died without receiving their titles, even though the government itself administered this scheme. The grandchildren of the original owners were often the ones left with the task of registration and titling.⁶
- c. Limitations of Actions Act (1939) This Act allowed the squatter, after 12 of uninterrupted occupation for private land and 70 years for government land, to gain legal ownership. It should again be noted here that the vast majority of squatters occupy government lands.
- d. The Facilities for Title Act (1955) Under this Act, a person who is in possession of a parcel of land for seven years can obtain a certificate of compliance. The effect of

⁴ National Squatter Survey Jamaica, Final Report August 2004 (unreported)

⁵ Tindigarukaru, Jimmy. "Challenges in Housing the Poor in Jamaica: the Case of Squatters", *On Housing*, National Housing Trust, 2006.

⁶ Interview with Peter Espeut by Kim-Marie Spence, October 27, 2007. The number /percentage of those without titles, while significant, is unavailable.

this is to confer on the holder of the certificate an indefeasible title to the freehold on the basis of which he is entitled to apply for registration under the Registration of Titles Act. The procedure is a relatively simple one and persons who are reputed owners of land are granted title to full ownership that can then be registered under the Registration of Titles Act. This particular facility is useful for dealing with 'family land'.

- e. Land Reform Programme (1972-80) was meant to increase land utility among the rural poor. The slogan of the program was 'Put Idle lands into Idle hands' utilising government owned lands. Operation GROW (Growing and Reaping Our Wealth) was a long term project. Its centrepiece program was Operation GROW, which gave small farmers and tenants the chance to lease arable land (public/private) on short to long term basis. The lease included financial incentives and obligations of land cultivation. It was unsuccessful due to a hijacking by politics, with land distributed to PNP supporters and the poor quality of the lands themselves. Moreover, the administrative duties associated with this program were beyond the capacity of the civil service. Again bureaucracy/administration is cited a problem, pointing to the need for internal solutions.
- f. The National Land Policy 1996 (NLP) is the most recent comprehensive land policy in Jamaica. Out of this act came all-island cadastral mapping, a central registry for all land titles and the criminalisation of squatting. It also includes corrective measures that 'reduce the incidence of squatting by eviction where necessary' (Government of Jamaica (GoJ) 1996). Evictions and relocations are contentious and has led to flare ups and confrontations e.g. Flankers in 1995 and Retirement in 1998.

Divestment of Government lands is also part of the NLP with the objective of privatising under-utilised tracts in keeping with its social and economic objectives (Tindigarukaru 2006).

- g. Operation PRIDE 1996 is a programme that was to divest land at discounted market value and make them affordable to low-income citizens. The policy by its very nature discriminated against the poor and unemployed. Operation PRIDE operated through provident societies. Beneficiaries were required to pool and save their money under the auspices of a provident society. The Government would sell the land to the beneficiaries at discounted prices. The beneficiaries, through the provident society, were then responsible for their legal costs and for the necessary infrastructure in each community, inclusive of site planning, land surveying and subdivision plans, and building costs. Transfer of land title was supposed to occur only after completion of the infrastructure work and submission of a surveyor's plan to the Titles Office. Operation Pride ostensibly targeted the squatter communities and low-income persons, most often the segments unable to afford the fees and costs associated with this programme. Consequently much of the initial infrastructure development, against stated policy, was financed through loans from the government of Jamaica.
- h. Cabinet Decision No. 158/MEH-13/99 (1999), Parliament instructed Parish Councils to accept the Land Settlement Schemes and Government Housing Schemes

with infrastructure "as is", and give subdivision approval. This has however not been followed by most Parish Councils

- i. Relocation 2000 project implemented by the National Housing Trust (NHT) boasts of success cases in Belle Aire in St. Ann and Providence Heights in St. James (previous squatter communities). There are other cases of failure e.g. the community of Mona Commons, where the squatters have still not moved because they would be leaving their sources of income.⁷
- j. Inner-City Housing Project (2003) is part of the Urban Renewal Programme and is implemented by the National Housing Trust. It is a social intervention and community development programme intended to convert squatters from 'free living' to homeowners. The programme builds subsidised apartments in inner city areas and offers them to inner city residents through the facility of NHT (National Housing Trust) mortgages. Recently, thoughts of closing down this project have been expressed openly by the Minister of Housing, due to the cost of this programme and its significant subsidy by the government (a total of \$9 billion). The major challenge has been its sustainability caused by the non-payment of mortgages by the beneficiaries (an approximately 30% arrears rate); the cost (and subsidy) of building; the cost of land; and legal costs associated with subdivision approvals, for example.
- k. LAMP (Land Administration and Management Programme) (2001) is a 7-year IDB (Inter-American Development Bank) programme "to support the Government's long-term goal of improving the land market and increasing land security, especially for rural, low-income groups." The recently completed pilot leg in St. Catherine was designed to address 30,000 parcels, but produced fewer than 600 registered titles. LAMP was unable, due to the multiple challenges, to carry out a mass regularisation of land titles. The programme reverted to the case-by-case approach to registration and titling and causing huge delays in processing time. This can be viewed as a comment on the general land titling process of which the LAMP process was a microcosm; slow and costly. According to the NLA, they only have the capacity to survey 400-500 lots per year.8

Secondly, the lack of will on the part of the ostensible beneficiaries, to formalise their ownership, attributed to the high cost and slow process, particularly in the rural areas, was under-estimated. Under LAMP, the stamp duty (1.8% of land value); the transfer tax (7.5%); and the Estate Duty (15%) were not due/levied for many. In spite of this, only 8,000 persons came forward to participate in the land titling aspect, even though almost all of the 30,000 parcels had been mapped, and subsidised legal fees were offered. \$28,000 (the average cost) was still considered by many too high a price to pay. This suggests insufficient consultation with the potential beneficiaries in the design of the project.

⁷ Many of the residents of Mona Commons rely on the University Hospital of the West Indies for their income. Moving from the front of the University Hospital would adversely affect their income flow.

⁸ _______. "Land Settlement Schemes". Article presented by the National Land Agency (no author's name on the manuscript).

I. Squatter Management Unit (2006)- Ministry of Housing - set up to coordinate government's response to squatting has been hampered by lack of resources e.g. it is manned by only two persons. Its focus was not regularisation, but monitoring/containment and public communication. Nevertheless, it operates separately from the other programmes e.g. Operation PRIDE. Currently it fields calls and offers advice to squatters among its duties.

There are identifiable patterns to these programs and interventions:

Firstly, the inability or incapacity to date of the Jamaican Government to make land ownership easy, whether for those on family land where ownership is not in dispute, those who are simply unregistered, and those who are squatters.

This incapacity has been demonstrated even when a particular programme is wholly government-administered. A highly undesirable situation persists (e.g. 45% of rural land parcels without registered titles) despite the decade-old National Land Policy and the consequent creation of institutions such as the National Land Agency.

Secondly, particular characteristics of the **target groups** have not been sufficiently taken into account in the design of these programmes. The LAMP programme was hampered, not only by bureaucracy and costs, but also the noted lack of reluctance to borrow money with land as collateral. Operation PRIDE was impacted by the non-recognition of the paucity of resources among intended beneficiaries. The ICHP was unable to build houses the residents could afford.

The essential solution would lie in doing more comprehensive research on the 'customer' population i.e. the beneficiaries. Policies would stand a much better chance of success with greater buy-in from the intended beneficiaries.

Thirdly, more efficient policy implementation to achieve widespread formalisation and ultimately a dynamic and efficient property market will require the centralisation of the government agencies and authorities associated with land transactions and administration. e.g. LAMP operated largely outside of the National Land Agency, the Government's title-issuing body and the lack of compliance by Parish Councils with Cabinet's 1999 decision regarding subdivision approval.

Recommendations

The Government's **first priority** should be to tackle the 45% of rural land parcels that lack registered titles and the rest with flawed titles but which, in many instances, have undisputed ownership.

- O The unavailability of documents and formal surveys and the cost to procure these and other services associated with titling should not be allowed to exclude the poor from the benefits of formalisation.
- o Institutional transformation and community approaches are required to expedite formalisation especially in the cases of family land where ownership is not

disputed. Jeremy Palmer⁹ suggests that the NLA appoint **community land tribunals** that would examine evidence put before them by the landowners and the community in support of their ownership.

- o **Funding** could be obtained from agencies such as the NHT and payments amortised in a way to make them affordable. The lender's interest would be registered on the title deed.
- O It should be noted that a number of the reports from the Ministry of Agriculture & Lands and the NLA indicate the reluctance of many rural Jamaicans to use their land as collateral for fear of losing it and a deep distrust of banks.¹⁰
- o **Public Education** on the benefits of land ownership is essential. The LAMP reports noted that the demonstration effect, i.e. people actually acquiring land at reasonable cost, was far more effective than the media campaign.

The National Land Policy must be reviewed to ensure alignment with broader national development goals to ensure that this finite resource is being efficiently utilized for Jamaica's economic and social advancement. This policy should encompass zoning by usage and a divestment plan for state-owned lands that is structured, transparent and accountable.

Legislative, tax and regulatory reform must be implemented to create a dynamic and efficient property market that encourages investment. Existing structures must be rationalized and enhanced and new ones created, where necessary, at the national and local levels to expedite the widespread formalization of land tenure.

- o In LAMP, cadastral maps were done for entire communities resulting in significant savings on the survey costs per parcel.
- O The lack of coordination between the different agencies and multiple changes in their functions and names has been significant contributors to the failure of LAMP and other programmes. The bureaucracy surrounding title applications is a proven disincentive to potential landowners. ¹¹ ¹²This suggests a need for further centralisation of the titling process. e.g. Subdivision surveys and approvals do not fall under NLA; they fall under the Parish Councils. When the parcels are large, the matter is also referred to the Minister for the Environment.

The thorny issue of squatting cannot be ignored and will require dealing with the existing informal settlements through formalisation or relocation and a strict enforcement of the

⁹ Jeremy Palmer was in charge of the Land Titling Programme in the 1980s.

¹⁰ Notes from LAMP Second PCR Meeting Exit Workshop, August 16, 2007. Unpublished

¹¹ De Soto, in his interview with Cliff notes that informality is not so much about persons breaking the law, but the law breaking them. (Clift 2003, p. 10)

¹² The Commissioner of Lands points to persons being satisfied with paying the taxes on the property and having little incentive to move beyond that to title possession (In a phone interview between Kim-Marie Spence and Elizabeth Steer, Commissioner of Lands).

laws prohibiting this activity. Affected lands cannot be given away, but residents should be given the opportunity to pay for and regularise their holdings and enter the formal sector.

- O An amnesty to legalise dwellings, followed by a policy of containment, has worked well in Trinidad and Tobago. However, a more aggressive programme of divesting land to individuals who can prove long, uninterrupted occupancy should be implemented.
- O Squatting, as a largely urban phenomenon in Jamaica, should be dealt with within the context of the urban environment the unlikelihood of agricultural recourse for squatters, the density of these settlements; the poor state of the infrastructure; the construction of schools and other institutions.

Further Research

These are preliminary results. Certain key data, such as the amount of persons who live in squatter settlements; the overall portion of the population affected by other forms of insecure tenure is virtually unknown.

The key then is to obtain an accurate picture of the land-titling situation. This paper relies heavily on the experience of other countries, such as Peru (De Soto), India (Banerjee) and an international survey (Durrand-Lasserve et. al). The document that extensively addresses the Jamaican situation of land tenure is ironically the review of the different programmes, particularly LAMP. There is/are few national surveys. Notes from the post-LAMP review meeting reveals the representative from the Ministry of Agriculture declaring that the "real status of titles was unknown prior to the start of the project and continue to be largely unknown". There is need for a comprehensive research effort in Jamaica to determine the extent and characteristics of the challenge.

Some key information is still required. These are a few:

- o The measured economic benefits of wide scale formalisation. e.g. the market value of all the land parcels without proper registered titles.
- o Primary studies to determine the character of family land and its susceptibility to appropriate titling. Our understanding of rural land tenure is still evolving and further research may be required to enhance the efficacy of any contemplated legal (and other) reforms.
- o The number of persons residing in and the infrastructure present in squatter communities.

¹³ Notes from LAMP Second PCR Meeting Exit Workshop, August 16, 2007. Unpublished.

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Maximizing Jamaica's Economic Potential Reducing Bureaucracy



MAXIMIZING JAMAICA'S ECONOMIC POTENTIAL REDUCING BUREAUCRACY

PREPARED BY ANTHONY V. CHANG

TABLE OF CONTENTS

I.	Introduction: The Possibilities]
II.	Current Rankings: The Facts	1
III.	Reducing Red Tape: Catalyst for Economic Growth	3
IV.	A Working Example i. Legislation, Regulations and Process Improvement Project	4
V.	Methodology	7
VI.	The Solution: Hope	8
VII.	Conclusion	8

I. Introduction: The possibilities

Imagine a situation in Jamaica where building approvals are given within a day, or less than a week, as opposed to the several months or weeks it now takes to receive approval notifications. Unlikely as it may seem in the Jamaica experience, the fact is that such timelines is a reality that exists in countries such as Canada, and bears significant implication on other growth and development indicators.

Let us also visualize an environment where a customer service mantra in government agencies is embraced and enacted as the norm and not the exception, setting the tone across wider industries and sectors, and encouraging citizens to more readily engage with these agencies to streamline their affairs.

Think of the possibilities to be realized as a catalyst for growth and development from the award of a top World Bank ranking on the index of ease of doing business; or the perceptions which arise from a listing among those countries with a demonstrated improvement in key indicators. Investment climate is improved, jobs are created and economic growth is encouraged.

Unfortunately the reality is different than stated above. There is enough anecdotal and case evidence to support the truth that simply put; too much red tape has severely hindered economic growth and retarded investment.

This is readily supported for example by matters related to the development approvals process; difficult to comprehend custom codes; and the inconsistent regulations governing the obtaining and issuance of work permits.

Despite significant liberalization since the late 1980s, the legacy of heavy state intervention and control over the economy persists. Many private sector persons perceive processes to be cumbersome and the state to be controlling, rather than facilitative and client friendly. According to a World Bank report, entrepreneurs spend too much time organizing and paying taxes, 414 hours.

Although work has been done to reduce transactional friction between Government and the Private Sector much more is required and with greater pace.

II. Current Rankings: The Facts

The Doing Business Project of the World Bank/International Finance Corporation (IFC) ranks 175 economies on the ease of doing business. The index means that the regulatory environment

is conducive to the operation of business. With first place being the best, Jamaica ranks at number 63 in both the 2007 and 2008 report. ¹

The report tracks a set of regulatory indicators related to business start-up, operations, trade, payment of taxes, and closure, by measuring the time and cost associated with various government requirements.

For instance the study measures the number of procedures required and the time taken and the minimum capital needed for "starting a business". For Jamaica, this category was the best of the 10 categories measured across all countries. Here Jamaica ranked number 9 in 2007. This presents a better showing than many developed countries. ²

Alternatively, "paying taxes" was the worst category for Jamaica, placing it at number 170. This is largely due to the high percentage of gross profit paid in taxes, 49.4 percent, and the number of 72 tax payments required within a year.³

The matter of licensing is equally of concern. In this category, Jamaica ranked at number 74 for the period of both the 2007 index.

Below are the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.⁴

Indicator	Jamaica	
Procedures (number)	10	
Duration (days)	236	

In addition to much anecdotal evidence which can demonstrate many of the implications which challenge growth in an environment bogged down in bureaucracy, a recent Inter-American Development Bank (IDB) study also supports these findings. Research analysts at the IDB however offer an important and perhaps insightful perspective. Bureaucracy, they suggest, impose high transaction costs on business, leading to informality and anemic growth in the

¹ The Doing Business Project "Doing Business in 2007 – How to Reform" in Comparing Regulation in 175 Economies, a co-publication of the World Bank and the International Finance Corporation

² lbid.

³ Ibid.

⁴ Ibid.

formal economic sector. The IDB had estimated that the informal sector accounts for about 40 per cent of the country's economic activity.⁵

According to the IDB's report, Jamaicans invest a huge amount of time and energy in tax avoidance and keeping their businesses in this grey zone. ⁶

Against this backdrop, the IDB has recommended, among other things, the reform of the tax and financial systems, a flattening of bureaucracy and a modernization of the legal arrangements. ⁷

These prescriptions are neither new nor even radical, having been repeatedly proposed in many quarters. Our governments have often declared themselves to be acting on them.

What is clear, and highlighted by the IDB study, is that with the public sector accounting for 39 per cent of GDP and the grey or informal economy accounting for an estimated 40 per cent of the country's output, real expansion is being stifled by a pervasive bureaucracy. 8

The victims are jobs and the creation of wealth. An appreciation of this should be a powerful incentive to change.

Reducing bureaucracy is one of the ways by which Jamaica can achieve maximization of the country's economic potential.

There are two prongs to reducing bureaucracy; one is to reduce the *practice* of bureaucracy; the rules, regulations and processes, by disbanding these strangulating rules and regulations, and the other is to reduce and or change the behavior of practitioners of bureaucracy

Reducing bureaucratic practice is difficult because of the vested interests involved. A UK example involved cutting of departmental budgets so Ministers had no alternative but to reduce staff. A freeze on recruitment caused numbers to drop dramatically because wastage was quite high and a significant number of staff was on fixed term contracts.

A starting point is a thorough top-level review of the regulatory environment by working through the statutes, and target legislation that mitigate against a successful economy. Jamaica has made significant progress in divorcing policy from service-provision especially by way of executive agencies and divestment from matters in which the Government ought not to be involved.

III. Reducing Red Tape: Catalyst for Economic Growth

Red Tape impacts significantly on SMEs and start-up entrepreneurs. This is the pivotal group which should be targeted as a catalyst for growth. If Jamaica is to experience further economic

⁵ Economic and Sector Study Series RE3-06-010 "The Informal Sector in Jamaica", InterAmerican Development Bank, December 2006 p.1

⁶ lbid p. 2

⁷ lbid p.24

⁸ lbid p. 2

growth through the creation of jobs, an environment in which SMEs and start-up entrepreneurs are encouraged must prevail. Larger companies tend to have the resources and the accesses to contacts to assist with overcoming the obstacles presented by red tape, and sometimes red tape acts as a barrier to entry.

In a 2007 World Bank report, evidence suggests that the top 20 countries in the world regulate, but they do so in less costly and less burdensome ways.

The World Bank analysis leads to three noteworthy findings.⁹

- * Business in poorer countries (defined as low and lower middle income economies under World Bank income classifications) faces much larger regulatory burdens than those in rich countries. They face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them.
- * Heavy regulation excludes the poor from doing business. In poorer economies 40% of the economy is informal. Women, young and skilled workers are hurt the most. This has a direct effect on job growth, and crime.
- * The payoffs from reform appear large. A hypothetical improvement to the top quartile of countries on the ease of doing business is associated with up to 2 percentage points more annual economic growth.

According to the World Bank, Ease of Doing Business is associated with more growth, and simple business regulations translate to more human development i.e. job creation, lessening of corruptive practices, etc.

IV. A Working Example Legislation, Regulations and Process Improvement Project

The "Legislations, Regulations and Process Improvement Project" (Legs and Regs), run by the Jamaica Chamber of Commerce and supported by USAID, is one of relevant significance. Under this arrangement the Jamaica Chamber of Commerce (JCC) and the Government of Jamaica (GOJ) in association with the United States Agency for International Development (USAID) embarked on a mission to examine areas of various processes which required improvement in order to aid growth and development.

Although much has been achieved much more is required, not only from this initiative but also from other projects.

Two private-public sector committees were formed; one is coordinated by the JCC, and the other by the Office of the Prime Minister.

⁹ World Bank Report 2007

The primary objectives of the project have been to;

- (i) Identify key inefficiencies and resultant barriers to doing business involving business transactions between businesses and government (B2G), and working toward their resolution:
- (ii) Target outdated regulations and practices no longer relevant in a globalised environment, and to lobby for their removal or modernization;
- (iii) Lobby for the introduction of legislations favorable to advancing an improved business and investment environment.

Results of the initiative have been:-

- a). establishment of a process of on-line registration for Tax Compliance Certificates (TCCs),
- b). improvements to the Stamp Office process for Credit Unions,
- c). initiation of a One Stop Shop at the ports,
- d). production of a Development and Investment Manual providing a record of the policies and procedures in place and practiced by each of the 28 agencies involved in the planning and building approval process.

Improving Business Visa Procedures in Jamaica

The business visa requirements were identified as a red tape issue that hindered the growth of businesses in Jamaica, particularly where they involved cross-border transactions. The JCC's **Legs & Regs Project**, on behalf of the business community, approached the Government for the removal of the business visa requirements. The requirement for a business visa was removed; however it subsequently became evident that difficulties continued to exist with respect to the procedures and issues related to transparency of these procedures.

One overarching concern was the perception that the business visa requirement was simply being replaced by a work permit requirement. The variations in information received from representatives of the government ministries involved in the process of issuing permits for short term business travelers also compounded the problem. It was felt that the variations in the information are as a result of the selection process for consular officers, the change in the supervision at the Immigration Department, and inadequate communication between the agencies.

The project embarked on a mission to standardize the procedures for immigration and work permits for business class visitors to Jamaica by documenting the procedures in an information brochure for use by Port of Entry Officers, Consular Officers and the general public.

The project consulted with pre-analyzed stakeholder groups which included the business community, the immigration and customs departments, government ministries, government agencies, and the funding agency.

At the end of the project an information brochure was produced in collaboration with the respective stakeholder agencies. Details of the brochure are hosted on websites of key organizations and various entities have agreed to present the brochure as a standard part of their operations.

The complete process requires further review as many business persons still complain about the work permit approval process.

Legislation

E-Commerce Transactions Act

The E-transactions Bill, one of the key pieces of legislation being advocated for by the Committee for e-commerce development, was passed in the Senate on December 8, 2006. Technical support was sourced, and provided by experienced personnel from the Cayman Islands and the U.K. to advise the Government and the private sector on this important tool for future growth and competitiveness.

Cyber Crimes Bill

On January 8, 2007 Cabinet approved drafting instructions for the promulgation of a Cyber Crimes Bill of Jamaica.

Development and Investment Manual

The development approvals process provides some evidence of the irregularities which arise from the absence of un-codified procedures, cross over or duplication of responsibilities, and absence of clearly designated authority. All of which are largely due to a complicated and complex bureaucratic process.

The pattern follows true for most sectors and sub-sectors of the economy. In the development approvals process for example, there are a total of twenty-eight (28) agencies which must be individually dealt with before project approval can be obtained.

An initiative was engaged by Legs and Regs to collate, record, and make readily available information relative to how and what the steps in the approval process ought to be. The Development and Investment manual has since been greeted by stakeholders as an invaluable resource for guiding and informing the approvals process.

The leadership of both the Construction Industry Council and the Jamaica Developers' association heralded the publication and use of the manual as being responsible for a "demonstrated significant improvement" in the process.

The engagement of private and public sector stakeholders remained paramount to the success of the initiative. Private / public sector concerns were not dealt with en vacuum but rather in an open, consultative setting which lent itself to consensus and cooperation, ending in a satisfactorily completed, successful project.

The idea to create a Development and Investment manual had been a part of the Government's agenda for several years but was never completed. The Legs and Regs intervened and managed to accomplish this within a period of just under a year and a half.

Electronic access to the Development and Investment Manual is readily available from the web sites of Jamaica Trade and Invest.; the Ministry of Finance and Public Service; National Environment and Planning Agency (NEPA); and the Cabinet Office.

V. Methodology

Although representing a small start in the grand scheme, the work and consequences of the Legs and Regs is a step in the right direction. This and other efforts, coupled with government's commitment and public statements to reduce red tape as presented in the Manifesto provides evidence of the essential "political will" needed to transform people, processes and legislation. The Manifesto also spoke to the need to implement the recommendations of Legs and Regs.

The Legs and Regs project has sought to evaluate and prioritize areas critical to the development process and to produce a critical path map (Appendix II) to assist the end-user in navigating the processes involved. This would set the tone for further activities under the initiative to reengineer those processes identified as impediments. Various stakeholder groups, to include the Construction Industry Council, the Developers' Association of Jamaica, the Jamaica Association of Architects, and representatives from most of the relevant government agencies, are active participants in the process.

Activities of the extended project have commenced and meetings have been held with ministers of Government. These in an attempt to not only sensitize them to the directions of the project, but also to engage the selection of the teams from within Government offices and agencies who will remain integrally involved in the project. The response from the Government has been encouraging.

Six (6) primary issues were initially identified and prioritized for re-engineering, with a seventh issue, one stop shop, recently added since the new Government partnership. (Appendix III).

Further work is currently in progress to commence the mapping and re-engineering of these key areas which form the basis for the third phase involving a project for which USAID, Private Sector and Government resources have been allocated.

In relation to the private sector, the project identified and engaged a working group from among key players within the wider stakeholder group who have articulated a document by which the public sector can be informed. This document describes the activities to achieve the end goals. (Appendix IV).

This has proven a useful tool to the agencies involved in the approvals process. The National Environment and Planning Agency (NEPA) has already met with the stakeholders to comment on the issues presented, and to offer further insight by which the project's effort can be guided. This collaboration is expected to continue throughout the life of the project. Similar meetings with other involved agencies are to be arranged.

At the end of the Project it is expected that the timeline of the process for building development approval can be significantly reduced in keeping with the desired 90-day approval guidelines prescribed by the Government.

VI. The Solution: Hope

Bringing concerned parties to the table is a simple, cost-effective approach.

The Legs and Regs was instrumental in recommending and designing the set-up of the One Shop at the ports where all the agencies involved in the import/export process could come together to facilitate users of the process in a designated environment.

I have hort term solution, such as designating even one person in government to navigate red tape on alf of businesses and investments, is beneficial. However this is neither practical nor sufficient for impacting the long term.

It is better for the public good to make the benefit of intervention available to all. It is therefore better to transform government agencies and operations so that all businesses and individuals can benefit equally.

Identifying and selecting areas which are viable starting points for this process can present a challenge. Effort must be given to first identifying those sectors with the widest scope to ensure that the benefits of reform reach a wide cross-section of society. The Construction industry for instance, is a good example.

The benefits for example, of setting-up of a One Stop Shop to aid the development approvals process and other investment projects will represent another significant first step in the right direction. This initiative is also being undertaken by the Legs and Regs' current development project.

VII. Conclusion

To achieve an investment friendly, growth stimulated economy we come back to the concept of governance. Local Government reform for example, is a critical step in the right direction. Reform of the public service generally is the responsibility of the Public Sector Reform Unit (PSRU). The key roles of the unit however could be envisaged as (a) efficiency and effective audits for all departments; (b) management consultancy services; and (c) post change evaluation,

to look at the effectiveness of change measures that have been introduced pursuant to, at periodic intervals e.g. 5 years etc.

Failure as a nation not to create a style and system of governance that sees the maximization of the country's economic potential is not an option. If we are serious about stimulating and transforming the economy into one of vibrancy and growth, equally serious consideration must be given to reducing bureaucracy.

Failing to act is also not an option. The costs are too high.

We have a choice.

Tax Reform

National Planning Summit November 2-4, 2007



TAX REFORM

Prepared by: Richard Chen

Why Tax Reform?

The present administration has stated that "Jamaica needs strong, sustained levels of economic growth to create jobs, reduce poverty, raise living standards and pay down the national debt." In their estimation a critical element in the process to achieve this transformation is tax reform. Among other things they seek to "[e]mbark on a comprehensive tax reform programme designed to simplify the tax system, make it more equitable, remove disincentives to investment and job creation and ensure greater compliance."

Similarly, the independent Caribbean Policy Research Institute has stated that "until Jamaica reins in its deficit, its economic growth will remain sluggish; simplification of the tax system and unification of rates across commodity categories and tax entities will increase the efficiency of tax collection by eliminating opportunities for avoidance and evasion" thus providing a part of the solution to the deficit problem.

CaPRI has also expressed the view that "the size of the informal economy is not only underestimated but it has the potential to limit the country's productivity levels... any plan [to address the problem of continuous low growth and low productivity levels] must include a properly crafted set of government policies that restructure and formalise the incentive schemes within the informal economy."

Fortunately, a comprehensive review of Jamaica's tax system was last undertaken just a few short years ago in the period 2003 to 2004 by a GOJ sponsored committee chaired by businessman Joseph M. Matalon. That committee worked along with a team of technical consultants headed by Professor Roy Bahl of Georgia State University in the USA. Among other things they produced a "proposed package of reforms for consideration by Government" in their "Final Report of the Tax Policy Review Committee to the Government of Jamaica November 30th 2004" (the so-called "Matalon Report".)

Unfortunately, despite its acceptance by the previous administration, many of the reforms proposed in the Matalon Report have to date not been implemented even though the Tax Policy Review Committee clearly stated:

"The reform package presented should not be considered simply as a "menu" of reform options from which preferred positions may be selected. Rather, the committee wishes to emphasise that in making its recommendations, the impacts in terms of economic effects, burden distribution, equity etc. have been measured based upon the outcome of the recommended package as a whole and given the interaction of all proposed measures. Any changes which government in its wisdom may deem appropriate should therefore be measured in the same light if the hoped-for internal consistency of the tax system is to be preserved."

What we advance as a policy position is largely a summary of some of the more salient

points in the Final Report of The Tax Policy Review Committee. We have also added a few suggestions which we believe are in keeping with the criteria used by the Tax Policy Review Committee in measuring the efficacy of any proposed reform.

Those criteria are:

- Revenue performance
- Distribution of tax burden
- Coverage of the tax base (horizontal equity, fairness)
- Economic incentives, competitiveness, and growth effects
- Administrative efficiency and compliance cost

The Government of Jamaica imposes a wide range of taxes on income, consumption, and property. The question of "who bears the final burden of a tax?" is a fundamental one. Any tax will cause individuals and firms to change their behaviors, and the resulting changes in product and factor prices will affect the "incidence", or the distributional effects, of the tax. Although there is wide agreement about the incidence of some taxes, such as excise or individual income taxes, the incidence of other taxes remains controversial. Even so, several basic "principles" of tax incidence should be kept in mind.

Vertical equity is defined by reference to the effective rates of tax on total income paid by individuals at different levels of income. Jamaica's current system of individual income taxation may be described as progressive because effective tax rates increase gradually from 0%, for those individuals whose incomes fall below the income tax threshold, to rates approaching the statutory rate of 25% at the highest income levels.

Horizontal equity on the other hand is defined as the extent to which equally situated individuals (individuals of broadly similar total incomes) pay approximately the same amount of tax. The system of non-taxable allowances under the individual income tax is an example of one of the existing features of the tax system which gives rise to horizontal inequity. Individuals earning identical levels of wage income can suffer significantly different rates of tax depending upon their ability to negotiate such allowances with their employers, or depending upon the particular industry in which they happen to work.

The report on *Taxation and Economic Efficiency in Jamaica* presents a quantitative economic model used to determine the macroeconomic impact of tax reforms in Jamaica. The current results suggest that simply increasing rates under the existing tax structure will produce a low tax yield and high efficiency costs. Although taxpayers are impacted in any scenario, the tax burden can be mitigated by improving tax compliance and by eliminating several pre-existing tax distortions.

The key reform - GCT

According to the Matalon Report, "The revenue productivity and the fairness of the GCT could be addressed by eliminating all non-export zero rates other than those required by international convention, together with a significant amount of the exemption list."

Going forward all items should be taxable at the standard rate. Zero rating should be eliminated and all exempt items should be reviewed with a view to moving them to taxable. Once the change has been made the rate should be reviewed with the expectation that it can be reduced. The GCT rates for non-export revenue in industries like tourism and telecommunications should also be brought in line with the standard rate. This would have to done as part of an overall revision of the other taxes and incentives that are peculiar to those industries.

Personal Income Tax

In developed countries, the income tax, especially the personal income tax, has long been viewed as the primary instrument for redistributing income and wealth. Jamaica needs to reexamine whether it makes sense to rely on income tax.

Firstly, the personal income tax has done little to reduce inequality in many developing countries. This failure is not surprising given that in many countries personal income taxes are neither comprehensive nor very progressive—they often amount to little more than withholding taxes on labor income in the formal sector. Moreover, the personal income tax plays such a small role in the tax systems of developing countries that it would be unrealistic to believe that this tax could have a meaningful impact on distribution.

Secondly, it is not costless to pretend to have a progressive personal income tax system. Tax systems generate real administrative, compliance, economic efficiency and political costs. The costs associated with badly designed and badly administered personal income tax systems likely exceed the costs associated with other taxes. There are opportunity costs as well.

Third, given the ineffectiveness of the personal income tax, if countries want to use the fiscal system to reduce poverty or reduce inequality, alternative approaches merit consideration.

The threshold for tax-free pay should be raised to \$275,184 from the current level of \$193,440. This is in keeping with the present administration's stated commitment to "Increase the tax-free threshold to provide relief to thousands of wage earners who are now required to pay income tax on earnings of more than \$3,720 per week." The idea here being is that the threshold should be assessed periodically with the view to increasing it further.

All allowances including motor vehicle and accommodation should be eliminated. In addition the tax benefit assessed on a company car should be in line with market-approximately \$400,000 to \$600,000.

The net effect of these changes is expected to be revenue neutral. The effect on employees will be that those earning near \$275,184 per annum will receive an extra \$20,000 per year whereas employees with allowances will pay more taxes. However, while accommodation benefit/company car can be used as a way to compensate employees without paying taxes many other non-taxable allowances (e.g. motor vehicle upkeep, mileage allowance, subsistence allowance, etc.) are not used to provide a non-taxable income to employees. They are merely intended to compensate employees for expenses they incur in the course of carrying out their employment.

The only change to the self-employed person would be the tax threshold. However, the administration should be improved to encourage self-employed persons to file and pay personal income tax. A possible suggestion is that all persons over 18 should be required to file an income tax return based on their TRN registration. Of course, an evaluation would have to be done to determine the administrative costs to accomplish this.

From the Matalon Report, "The main benefits of these changes are a lowering of the cost of labour, a reduction in the number of lower income workers on the tax rolls, and administrative simplification."

Corporate Income Tax

The standard rate of corporate income tax needs to be reduced from 33 1/3% to be inline with the personal income tax rate of 25%. The yield from corporate tax rates is a relatively small percentage of total revenue. This is due to the relatively small business base due to a lack of new business development over the last few decades here and the large amount of unrecorded economic activity in the informal sector.

Apart from lower rates, investors prime concern is the predictability and certainty of tax rates. Consideration should be given to guaranteeing fixed low long-term corporate tax rates.

Whilst tax rates are a factor in attracting Foreign Direct Investment, fair and consistent administration can be even more important.

Tax on Dividends

With-holding tax on dividends only applies to private companies. This double taxation results in most private companies paying out profits by way of remuneration. The cost of administering such a tax does not warrant its collection. From the Matalon Report,

"dividends of non-listed corporations should be exempted from tax. This change would remove the current bias against non-listed stocks." This double-taxation of private company distributions must be eliminated.

Tax on repatriation of funds by non-residents

At present persons who are contracted in Jamaica from abroad whether they be individuals or body corporates avoid taxation on their fees. In addition, they are not registered for GCT. This is inequitable to local consultants in addition to a loss of revenue. Making "imported services" liable to GCT poses many administrative challenges however there may be ways within our withholding tax system to recover these taxes.

Common External Tariff (CET)

There are 10 basic tariff categories. Within each category there are numerous exemptions and rates vary widely. In addition, several other taxes are imposed on imported goods. Our import duty rate structure is high and highly variable, and thereby encourages graft and corruption.

An analysis of C78 customs forms over an extended period undertaken as part of the Matalon Report yields surprising results. The average weighted applied or statutory rate of taxes paid on imports was a shade over 10%. Even more surprising is the fact that the average weighted collected rate of taxes on imports amounts to just over 5%. The difference between this and the average statutory rate of 10% is accounted for by a wide variety of exemptions, reliefs and waivers granted under various pieces of legislation.

This implies that if we were to apply a uniform tariff rate of 5%, with no exceptions of any sort, we would collect approximately the same amount of revenue as we do today.

It is ridiculous that the actual weighted average collected (as opposed to statutory) rates of import duty amounts to less than 5% of imports. A unified rate structure in the region of 7% would both generate more revenue and reduce the need for incentives. The goal should be to lower import duties to a combined maximum of 10% (including or rationalizing the CUF and any other fees) except for motor vehicles.

For motor vehicles (including pick-ups) other than trucks, tractors, buses, fire engine etc introduce a two tier duty based on cc rating and fuel type (gasoline or diesel.) The motor vehicle registration fees should be significantly increased (doubled or trebled) and prorated to the tiered system. Of course, all concessions (e.g. 20% for public sector, etc.) should also be abolished.

We cannot change tariff rates significantly without reference to Caricom and the Common External Tariff. The government should begin a process of engagement with our Caricom partners to address this issue.

The Incentives Regime and Import Duties

This issue is also closely related to that of the local incentives regime. By far the most significant benefit derived under existing incentive legislation are those reliefs and exemptions from import duties. The wide dispersion in applicable rates on imports makes it easy to see why these reliefs are necessary.

Stamp Duty (local) and Transfer Tax

Stamp duty is paid on the transfer of real property and shares of companies (in Jamaica). The rate is 5.5% and together with the transfer tax (7.5%) results in an effective tax of 13%. Contracts are often drawn up in two parts so that transfer tax is only levied on part of the consideration.

Stamp duties should be eliminated across a broad range of asset classes, whilst transfer tax should be levied in a consistent fashion at the transaction point.

Death Duties

Reduced by 50% in 2003, death duty now stands at 7.5%. This is in line with inter vivos gifts. Payment of tax is usually a problem as the deceased usually have limited liquid assets. This should be reviewed with a view to reducing it further.

No immediate reforms are expected for the following tax types:

- ➤ Bauxite/alumina levy
- > Tax on Interest
- > Consumption Duty /SCT
- > Stamp Duty on imports
- > Travel Tax
- ➢ GCT (imports)
- ➤ SCT (imports)

The Special Issue of Incentives

There is a conflict between the administration's stated goal of simplifying the tax system and providing incentives for the numerous areas they have indicated.

Picking Winners - a difficult task

We should not attempt to pick winners to the exclusion of others, at least when developing the nation's tax policy. If you design your tax policy and incentives solely

around specific activities which you believe are going to take your economy forward, a danger exists that you can inadvertently exclude other sectors which you have not thought of today which could contribute significantly to economic development in years to come. Tax legislation does not evolve as quickly as the global business environment so our tax legislation should be flexible enough to allow future winners to emerge.

This does not mean that Jamaica should not concentrate its limited resources on specific areas when marketing the country overseas. Obviously investments will only come to Jamaica where they make sense economically.

In a public information notice released on October 5th entitled Selected Regional Issues in the Caribbean, the IMF executive board noted that while "Caribbean countries heavy reliance on tax incentives may help attract investors, they are costly in terms of foregone tax revenues." The board argued that "other efforts to attract investments may be more effective for the region as a whole, and pointed in this connection to factors such as institutional quality, infrastructure and governance" as important determinants of Foreign Direct Investment (FDI).

Whilst the IMF recognized "the intense competition for global investment funds which the region faces", its directors "encouraged policy-makers to weigh carefully the costs and benefits of tax exemptions and consider reducing them if possible, to step up efforts to improve other determinants of investment, and to make remaining tax incentives more cost -effective."

Price Waterhouse Coopers partner Brian Denning notes that,

"[t]he objective of tax incentives is to stimulate economic activity that may not otherwise take place." In designing effective incentives, the goal is to forgo only so much tax as is considered necessary to achieve the desired results. For overseas investors this also requires an appreciation of relevant tax rules they face in their home jurisdiction as well as the impact of Jamaica's tax treaty network. Many of Jamaica's incentives have been "all or nothing" and export-driven. With our commitments under both the Revised Treaty of Chaguaramas and the WTO agreements there is an urgent need to reform Jamaica's suite of incentives to meet the needs and challenges of today's marketplace."

Financing Tax Reform

A Tax Amnesty

When this was introduced in Ireland in 1987, it raised more than fifteen times what was forecasted in the budget. The idea was strongly opposed by the revenue commissioners and finance officials, who were sceptical about its chance of success and concerned about the principle being conceded. It had been tried before in Ireland and yielded little. Furthermore, an amnesty for tax dodgers and defaulters seemed to be sending the wrong

signal. After all, here were people who, in some cases as employers, had collected their employees' PAYE receipts and failed to pass this money to the state - a circumstance which may sound familiar to Jamaicans.

The inspiration for the amnesty was the Irish Finance Minister's experience in his constituency office. People were constantly coming to him and saying: "I want to put my tax affairs in order. I can pay the tax but I can't pay the penalties and interest."

Owing to the failure of previous amnesties it was believed in Ireland that the proposed 1987 amnesty would not work. However, this amnesty was different from previous ones in that the Government was waiving interest and penalty charges on tax outstanding. The result was a huge success and in the final week of the nine month period there were 40,000 callers to the Revenue offices in Ireland.

It may even be a useful idea to front load a Jamaican amnesty to reflect the time value of money. This would mean that, for example, people paying within three months of the announcement of the amnesty pay no penalty, people paying within six months get 75% of the penalty waived, whilst people paying just before the nine months expiry date only get 50% of the penalty waived. Whilst it is difficult to calculate the money that could be raised by such a "Tax Incentive Scheme" might raise it should be several times the informal partial amnesty that improved the figures by \$5.6 billion in the second half of fiscal year 2006/2007.

Withholding Tax on Dividends Paid to Non Resident Shareholders

When the dividends of listed companies were exempted from withholding tax, this exemption applied not only to dividends paid to resident shareholders but also to dividends paid to non resident shareholders. This raises the question "Why should Jamaica forgo tax revenue, when it can ill afford to do so, when other countries receiving dividends from Jamaica do not reciprocate?" Indeed, we are not aware of any countries (other than tax havens) which do not apply a withholding tax to dividends paid to non-residents with those located in tax havens being subject to the highest rates of withholding tax.

Certainly, our Caricom partner, Trinidad & Tobago - which some 15 years ago abolished the double taxation of dividends - still applies a withholding tax to dividends paid to non residents. Barbados also imposes a withholding tax on dividends paid to non-residents. Moreover, we understand that even President Bush's proposal to eliminate the double taxation of dividends, by the removal of the withholding tax on dividends, does not extend to dividends paid to non-residents.

In short, the re-imposition of withholding tax on dividends paid to non-residents would only put Jamaica back into step with common practice. We have not quantified the amount of additional revenue that this measure would generate, but we estimate from the

latest Bank of Nova Scotia Jamaica annual report that, applying the double taxation treaty rate of 15% to dividends paid to Canada would yield millions of dollars of revenue.

In any event, such a measure would be unlikely to influence adversely the commitment to Jamaica of non-resident direct investors such as the Bank of Nova Scotia, Carreras, Cable and Wireless, Berger, Goodyear, etc. In light of the above, it appears that we have nothing to lose and everything to gain by re-introducing the withholding tax on dividends paid to non-residents.

Contractors Levy

A contractor's levy of 2% should be withheld on all contractors' payments and paid over to the tax authorities. However, the current collection of approx \$835 million does not seem to be in line with the activity in the industry. The administration of the levy should be improved to ensure its collection from all contractors including construction, haulage, etc.

An Energy Equalization Tax

Whilst appreciating that the taxation of energy, gas in particular, is highly sensitive from a political standpoint, there is surely a strong case for biting the bullet, given the difficult financial position in which the Government finds itself. Presumably, the reason for the limitations placed on the taxation of gas is that increases in gas prices put up the cost of transportation and this feeds through into every component in the cost of living of the poor. However, there are many items more likely to have a greater direct impact on the lives of the poor than additional taxes on gas, specifically items and services, which were previously exempt or zero rated?

Other points to consider are:

The taxation of gas is a major source of Government revenue in most countries – consequently even in metropolitan countries like the UK, which are self sufficient in the production of energy, vehicle drivers pay more than double what we pay for gas.

Energy imports comprise a large proportion of our imports and accordingly contribute materially to our trade deficit. At the same time, energy conservation is not our strong suit. Thus, if higher prices encourage us to consume less gas and concurrently swell the tax coffers, we would be ahead on both counts.

Given that we have just been through a period of very high oil prices, at some point over the next six months oil prices may peak. As retail gas prices would not fall as sharply as the fall in oil prices an Energy Equalization tax could then be implemented to absorb the surpluses arising from any reductions in oil prices. The tax would not however actually raise the price of gas, as it would only be imposed when the price was falling, albeit from high levels.

Administrative reforms

As well as reforms in the incidence, rates and calculation of tax there is need for reform in the administration. The following are suggested reforms:

- GCT is one of the easier taxes to administer and collect. TAAD should appoint a dedicated team to monitor GCT returns and pursue irregularities, missing returns, etc. within the month.
- The Integrated Computer Tax Administration System (ICTAS) has undergone a series of modifications and amendments since its introduction in early 2000s the administration suffers from data entry errors into ICTAS which are dealt with by the same department as assessments. A group should be set up to deal with all issues relating to internal administrative errors to eliminate them as soon as possible thus reducing the frustration visited on the taxpayer.
- The initiative whereby persons were encouraged to visit with their records and an agreement reached should be reintroduced to encourage compliance.

Social Fund

The Matalon Report contemplates "A problem with most of the tax reform options under consideration here is that they impose an increased burden on lower income households. In fact, most base-broadening reforms will have this result. While one goal of tax reform ought to be to protect the real income position of the poorest of the population, the committee believes that a better way to achieve this goal is on the expenditure side of the budget."

Conclusion

Whilst the report itself has been in the public domain since early 2005 to quote Mr. Matalon, "one of the most important functions of the Committee's report is as a foundation of rigorous analysis that can provide a sound platform for public debate of the choices we face in the arena of fiscal policy and public finance, given our current economic circumstances, the international development trends that most affect us, and our prospects for economic growth and social improvement."

The information and economic models used to inform the Matalon Report should be immediately updated. Along with the proposed reforms the Matalon Report made reference to administrative issues and options that need to be immediately addressed. Also it suggested where further studies had to done to inform the reform process particularly in the area of incentives.

Furthermore, for the other suggestions made, economic models need to be developed and their implications studied so as to determine their effects.

From the report "Finally there must be a program of public education and awareness. The reform needs to be justified to the taxpayer, and its hoped-for impacts explained. Otherwise, opponents will explain it to taxpayers in a less informed way, and public acceptance will be more difficult to achieve. It is better for Government to set out the facts of the reform than to have the presentation guided by emotion and self-interested presentations."

None of these issues should be dealt with in isolation. If tax reform is to be successful in Jamaica the approach must be comprehensive across all tax types and allow for a level of public engagement and education that convey a real understanding of the options that we face as a country.

CaPRI suggests that "experiences elsewhere suggest that "belt-tightening" exercises [including tax reform] can survive political opposition, and even gain support, if they are done swiftly and decisively in a new administration, with the benefits seeming to accrue to all sections of society. But there is little time to lose, and not much time in which to do it.

Below is a summary of the tax types and approximate receipts for financial year to 31st March 2007.

Tax Type		\$million	Comments
Bauxite/alumina	Mainly bauxite levy (2%)	18,286	
and corporate tax	and corporate tax (331/3%)	,	
PAYE	Tax on employed persons	40,966	
Tax on dividend	Tax on dividends - private	213	Tax no longer withheld on
	companies		public companies
Other Individuals	Self employed	2,386	
Tax on interest	Tax withheld on interest	14,471	
	payments		
Consumption		4,043	Locally levied SCT on
tax/SCT			alcohol production etc
Motor vehicles	Vehicle registration fees	964	331/3% to Road
licence			Maintenance fund
Other licences	Driving licences, fitness	277	
	fees, firearm licence fees		
	etc		
Betting Gaming		1,144	
Lottery			
Education tax		9,209	Employed and self
			employed
Contractor's Levy	Levy on all contractor	835	Levy due unless certified
	contracts		otherwise
GCT (local)	GCT collected on all local	33,301	
	supplies		
Stamp duty (local)	Stamp duty on transfers	4,100	
Transfer tax	Transfer tax on intervivos	4,800	
(local)	transfer		
Estate duty	Transfer tax on death	827	
Custom Duty	Import duty	16,882	
Stamp duty	SD levied on imports	1,128	
Travel tax	Departure tax	2,020	
GCT(Imports)	GCT on imports	24,333	
SCT (Imports)	SCT on imports	9,212	Alcohol, petrol, cigarettes
			etc
TOTAL		189,397	
Customs User Fee	2%CUF on all imports	5,301	

Note: CUF is not included as a tax receipt

From Celtic Tiger to Carib Tiger- Lessons from Ireland

National Planning Summit November 2-4, 2007



FROM CELTIC TIGER TO CARIB TIGER – LESSONS FROM IRELAND

PREPARED BY KEITH COLLISTER

From Celtic Tiger to Carib Tiger - What lessons does Ireland's phenomenal success have for Jamaica?

"The national political addiction to deficit financing may have started in a relatively innocent and rather experimental fashion in the early seventies, but over the next decade and a half, as the national debt mounted, government dependency on borrowing to pay for current spending grew until it brought us to the brink of national bankruptcy.

The seeds of future difficulty in this regard were actually sown in 1972. The Minister of Finance broke with long-standing precedent when he chose not to balance the budget on current account. It set a headline, and a bad example, for others to follow and which they could not resist in more difficult budgetary times. An important principle of prudent economic management was abandoned. And so borrowing to finance day-to day spending, which had started as a temporary innovation, quickly became the new conventional wisdom."

The casual reader could be forgiven for assuming that the above passage referred to Jamaica. In fact, it is an excerpt from the book "The Celtic Tiger" whose author, Ray MacSharry, was the Minister of Finance during the critical period of Ireland's economic transformation into a high growth economy, and was quoted in a Gleaner article entitled "From Celtic Tiger to Carib Tiger" in March 2003.

Ireland has gone from being one of the poorest members of the European Union to the richest country in the European Union after Luxembourg with a per capita G.D.P. higher than that of Germany, France and Britain. Ireland, a former British colony, was for hundreds of years best known for emigration, famines, and civil wars.

However, in less than a generation it went from being "the sick man of Europe" to being called "The Celtic Tiger", meriting positive comparison with the dynamic "Tiger" economies of South East Asia. Ireland's growth reached a peak of over 10% in 2000, and is still averaging a very impressive 5% in the post boom period.

However, in 1987, when Mr. MacSharry took over as Minister of Finance, Ireland's economic circumstances were quite different – strikingly similar in fact to our own position right now. Ireland also had a very low to negligible growth rate as late as the 1980's when the rest of the world was booming. The major difference between Ireland then, and Jamaica now, is that we have been suffering for more than twice as long as Ireland did from this "national political addiction to deficit financing".

In an even more relevant passage, ex -Finance Minister MacSharry goes on to say:

"The budgetary arithmetic was chilling. By 1986 ... some four out of every five pounds raised in income tax were needed to pay the interest on the outstanding national debt." By 1987, the budget deficit in Ireland had reached 8.3% of Gross Domestic Product (GDP). Moreover, the debt to GDP ratio in Ireland had peaked at 130% of GDP.

By 1987, Ireland appeared to be going broke after years of fiscal mismanagement. Emigration was at its highest level since the 1950's. Most of their college graduates were emigrating, with a common refrain being "will the last one to leave please turn out the lights". Unemployment had reached 17%. There was a 25% drop in manufacturing employment between 1980 and 1987. Inflation was running at an average of nearly 12% in the ten years to 1987. Real take home pay decreased by over 7% in the seven years to 1987.

The Irish Economy was in Crisis

The impetus for action was actually a financial crisis. Ireland was about to be downgraded by international rating agency Standard & Poors, leading to Ireland being cut off from the international capital market. This was a very serious prospect for a country with a debt to GDP ratio of over 130% of GDP. In that critical period, The London Times famously wrote that the international moneylenders were going "to pull the shutters down on Ireland".

According to former Irish Finance Minister Ray Mac Sharry, in his book The Making of the Celtic Tiger, "In March 1987, the economy was trapped in a vicious circle of high spending, high taxes, high interest rates, and rising debt.

By this time, Ireland had become known as an "in hock, out of work" country or the so called "sick man of Europe". Consequently, to finance its budget deficit, the financial markets were charging Ireland very high rates of interest.

Out of the crisis - The importance of fiscal discipline

The sense of national crisis prompted a concerted search for ways to escape the vicious circle of stagnation, rising taxes and spiralling debt. In January 1987, the government fell due to tension between political parties of Fine Gael and Labour. In February 1987, a new government (and new Finance Minister Ray McSharry who was his own man) took over, and implemented a rapid fiscal adjustment.

In October 1987, the first Social Partnership Agreement, the Programme for National Recovery, was agreed. At its core, it embodied trade union support for a radical correction of public finances. This fast track adjustment worked, in sharp contrast to the never ending gradual fiscal adjustment of previous years. A gradual program of adjustment is largely self defeating, as there is always some crisis somewhere e.g. the Irish currency crisis, which will offset the adjustment.

In a dramatic move, as the new Minister of Finance, Finance Minister MacSharry cut spending radically in 1987 bringing the deficit down to 1.7% of GNP from 12.8% in 1986.

On the spending side, we clearly need a different approach in order to succeed. To quote Mr. MacSharry again, "The traditional way of setting the spending estimates was for government departments to submit their annual pre-budget forecasts to the Minister for Finance. Invariably, the figures were grossly inflated for bargaining purposes. And all too often, the result was a

predictable series of sham fights where, after some preliminary political jousting, token concessions were finally agreed by the spending ministers in a final showdown around the Cabinet table. Whatever savings were achieved merely slowed the rate of increase in spending."

He continues "The real challenge...was to cut spending to the bone" adding that "In the examination of spending cuts, no sum was too small to consider". In Ireland, the team which was assembled to achieve this goal included the Prime Minister, his Permanent Secretary, the Finance Minister, his Permanent Secretary, the Governor of the Central Bank and the Chairman of the Revenue Commissioners.

The "From Celtic Tiger to Carib Tiger" article March of 2003 had in fact suggested that in Jamaica's case "a similar team would be strengthened by the addition of a good, high level, business savvy accountant on secondment from the private sector".

But what would the high-powered team do, and, in particular, what would it achieve? Again, Mr. MacSharry provides us with some guidance in his book by explaining what transpired at the meetings of the Irish team as follows:

"At these meetings, which lasted several hours, we reviewed overall economic performance under a variety of headings, which included whether tax revenues were on target, what taxes might be raised, the Central Bank view on interest rates and the progress of talks on the **Programme for National Recovery**."

One might conclude that there is nothing particularly unusual or significant about an economic team discussing the economic indicators influencing the economy. However, what is different is the zeal with which the team approached the issue of expenditure cuts.

As Mr. MacSharry indicates:

"Notwithstanding the significant cuts already realized in the 1987 budget, the government had committed itself to publishing the 1988 estimates in October 1987. It meant that, from the first day we entered government, there was a relentless preoccupation with expenditure control. As a consequence, I found myself spending some Sundays going through spending estimates and identifying savings as low as one thousand pounds on some expenditure items. The March budget represented simply the first phase of a sustained onslaught on spending. On this basis, the Irish Prime Minister wrote to all the government Ministers on 13th May 1987. He gave them ten days' notice to come up with a preliminary paper outlining where the proposed cuts would take place within their department. Ominously, he warned them that no expenditure should be regarded as sacrosanct."

In the twenty years since, Ireland has made a truly impressive turnaround, earning itself the nickname "Celtic tiger".

Fiscal discipline has been maintained since then, and by 2001, government debt had fallen to 33% of GDP.

The following is a slightly updated report on the Digicel sponsored trip to Ireland in October 2003 by a Jamaican team including representatives of the private sector, unions, academia, government and the then opposition.

The Views of the Irish Private Sector on the reasons for Ireland's Turnaround

One of the key meetings was with the Irish Business and Employers Federation (IBEC). IBEC itself is the result of the 1993 merger of two business organizations into one. Whilst this meant a much stronger private sector, the government overall felt happier to only have to get agreement from one entity.

IBEC makes a written Budget Submission that is a key part of how they influence government policy. This is the result of a deep consultation process with the various sectors, and has two main audiences: the Government and the general public. IBEC also represents its members in negotiations with Trade Unions.

Shared Focus on National Competitiveness

According to IBEC, a key part of Ireland's turnaround was their tremendous focus on national competitiveness, with the overriding goal in everything they did being job creation.

The period 1987 to 1990 was a period of jobless growth, or productivity catch up, as output increased but employment didn't. In 1990, Ireland's total work force was 1.1 million. Net immigration occurred in the 1990's when the employment market improved. By 2006, employment had nearly doubled to over two million, with no unemployment and 200,000 foreign workers (including 50,000 Chinese).

As a result, the number of people below the poverty line has fallen sharply. According to IBEC, the creation of employment is an extraordinarily powerful means of equity. Take home pay has increased dramatically over the 20 year period, particularly after tax.

The driving forces behind Ireland's Industrial Development Success were the lowering of corporate tax rates and the creation of a young, educated work force. The quality of investment was dreadful in the 1980's. It has improved hugely over the past two decades.

Other key factors included:

- Very high birthrate until the 1980's which has since fallen to the European average
- Improved technical education
- Consistent Industrial policy

- EU funds, whilst very important, had the additional very important consequence of requiring of Government medium to long term thinking of 5-6 years rather than the 1-2 years that had previously been the case
- EU membership meant a very open trade regime
- The Irish programme of encouraging FDI was extremely successful
- Reorientation of industry as employment in agriculture fell from 17-18% of the labour force as manufacturing and service employment increased sharply

Tax reform - Lower Corporate Tax Rates were the key factor in the Irish model

There has been a sharp decline in Irish corporate tax rates, with local corporate and personal income tax rates falling from the high 40's to a unified rate of 12.5% in 2003. Multinationals were attracted to Ireland by the 10% tax rate, which applied not just to companies located in the International Financial Services Centre (IFSC) but also to those in the Shannon Airport Freezone region and companies engaged in manufacturing activities. The manufacturing companies attracted by the 10% rate were large employers of labour, and moreover they generated an awful lot of tax revenue.

Ireland has had different tax rates over time. Initially it was 0% on exports, then a dual rate of 10% on manufacturing. The standard tax rate was 35%, which was subsequently cut to 21%, before unification was finally achieved with a 12.5% single standard corporate tax rate in 2003.

According to Opposition leader Alan Dukes (an economist), from an efficiency point of view, having one single low corporate tax rate would have saved rows with the EU as to whether bagging tea or ripening bananas was a manufacturing industry and therefore entitled to the 10% rate. Irish tax policy has been consistently unpopular with the EU, who have viewed it as an unfair competitive advantage.

Ireland actually moved to a standard rate of corporation tax of 12.5% to ensure that they held on to their very high level of foreign multinational investment. The new rate covered everything that previously qualified for Ireland's incentive rate of 10% on manufacturing and internationally traded services (which the EU had forced Ireland to abolish), and was chosen with the specific goal of hanging on to Ireland's huge foreign direct investment.

Ireland's low corporate tax rate works because it gets PAYE and VAT (the equivalent of Jamaican GCT), which increases if people are kept in employment.

Noting the importance of Ireland's low tax rate to their economic success, Mr. Dermot O'Brien, a leading economist at NCB stockbrokers argues: "The corporate tax revenue forgone argument is rubbish, as most of the companies would not have been there anyway without it – in that sense it is found money."

Most of the high valued added economic activity (shown by the very high proportion of GDP exported and imported) in Ireland's traded sectors comes from multinationals driven by the

attractive tax regime. The corporate tax rate is still below most of Ireland's European competitors, although several new EU countries from eastern and central Europe have also slashed their corporate tax rates to emulate Ireland's achievements in attracting foreign direct investment.

The critical issue is how to manage the consequences of Tax Regime Changes on the Tax Base?

IBEC's view is that if they had an opportunity to decide again the way/speed in which they should change their tax regime, particularly corporate, they would have adopted the same gradualist, dual approach again as Ireland had a weak economy and needed to help their exporters.

Education

A critical change took place in 1967, with Ireland making secondary education free as part of an "Investment in Education" initiative. This allowed more working-class children to get a high school or technical degree.

There was a dramatic expansion in the number of tertiary level colleges (Regional Technical Colleges), and two new universities were set up with a more modern focus. IBEC has a very close relationship with the Universities. The EU paid for most of the network of training colleges.

Whilst the official role of private education was small, this is very misleading as very many educational establishments were owned by the Church, which received state funding to operate what were essentially private schools. As a result, when Ireland joined the E.U. in 1973, it was able to draw on a much more educated work force.

As soon as the opportunity presented itself financially, Ireland vastly increased the resources allocated to this area. In 1996, Ireland made college education basically free, creating an even more educated work force. Today, 9 out of 10 of the world's top pharmaceutical companies have operations here, as do 16 of the top 20 medical device companies and 7 out of the top 10 software designers. The inquiring minds of their young people is now regarded as Ireland's key strength.

Industrial Policy

According to IBEC, in the 1980's Ireland was a developing country, in the process of moving from agriculture to industry, with a highly adverserial Trade Union/Employer relationship (overall unionization was around 70-80% work force). Management and workers were on different sides fighting over resources.

The Process of Irish Industrialisation

- 1) Agro Processing Local Dairy cooperatives became multinationals
- 2) Surplus agricultural labour Surplus labour used to emigrate, but now moved into new industries, whilst many farmers now have part time jobs.
- 3) Dublin's growth was unplanned Dublin is too big as it has 1/3 of the population. Public policy is now to adopt a spatial strategy that drives growth in more rational fashion, partially driven by tax incentives. If they had to do it again, the Irish would have paid attention to this issue much earlier.

Attraction to Foreign Investors

- 1) Strong Apprenticeship system e.g. construction/engineering
- 2) Failures (closures) of foreign plants also useful in creating business opportunities

Why have labour relations improved?

The marketplace drove the change in labour relations:

- 1) New foreign companies, mainly U.S., brought a new philosophy of industrial relations e.g. human resource policies to look after staff
- 2) Whilst 80% of the public sector workforce is still unionized, only 25% of the private sector workforce is now unionized. The total numbers of unionized employees has not fallen however in fact it has actually increased. The change in private sector unionisation percentage has been driven by huge growth in new private sector industries and consequently their employment levels.

Change in labour relations was also driven by improvements in communication between employers and unions, who now have a much better understanding of why business works. Trade Unionist Bill Attley played a key role, as he introduced new things for his union to do rather than previous adversarial relationship.

The currency crisis of 1992/93 also required changes in the labour market in terms of forcing an improvement in labour practices to achieve international competitiveness, whilst other changes have been the product of the social partnership.

Civil Service Performance – Pay and benefits, staffing, delivery and performance are key the issues. Best people should get best deal. According to IBEC, relativity is now out, benchmarking in.

Social Partnership - The View of the Irish Unions

Mr. David Beggs – General Secretary, Irish Congress of Trade Unions (ICTU) Mr. Peter McClune – General Secretary, Irish Municipal Public and Civil Trade Union (IMPACT)

Mr. Dan Murphy - General Secretary, Public Services Executive Union (PSEU)

In 1983, 40,000 people left Ireland in search of work, many of them highly educated, unlike previous waves of emigration in the 1950's and 1960's.

Capital was also fleeing the country, as very high tax rates drove people to put their money offshore and generated widespread resentment against high tax rates amongst the general population. The Irish population's post tax take home pay was falling due to inflation.

Articles in the paper said "Will the last person to leave Ireland please turn off the lights".

The Original Social Partnership

In 1986, the Unions approached Government in an effort to influence policy. The eventual Partnership deal had three main planks:

- 1) industrial peace
- 2) small real increase in wages
- 3) reduction in personal income tax

As to the mandated wage increases, roughly one third of firms had no difficulty in paying, one third could just about pay, and one third said can't pay, but to get an exemption from the increase they had to reveal the true state of their books (only about 50 companies ultimately came into this category).

The Partnership was possible because the majority of Irish trade unions had decided to move away from the British "adversarial" system. The partnership was however strongly opposed by a section of the Unions, and employers were skeptical. In the early 1990's, national social and economic policy was also re-orientated towards economic growth. This required a national system for economic development, and reorientation of economic policy that had been overly protectionist.

Social Partnership Agreements

The original social partnership process was driven by the country's leadership in the unions and the employers (as well as the masses) deciding that the problems were now at such a level that the situation was unsustainable.

Because of high unemployment benefits, rising unemployment had a significant fiscal cost, with the consequence that increasing employment had a doubly positive effect on Government revenues as they stopped being paid the dole and started to be paid taxes. At the time, the public services unions had had become the residual in this competition for resources, whilst major cuts in health services led to demonstrations.

By 1993, the overcapacity had been used up and job growth started, and a virtuous circle was created. Despite high growth in the labour supply, unemployment has fallen and employment has increased from 1m to 1.8m (2003).

At all times, the social partnership agreements were a work in progress. The partnership model has survived because over time every stage of political opinion that has become the government has decided that the partnership is superior. Opposition parties that were opposed to the social partnership model became supporters in office. Everyone understood that if Ireland was to survive as a country it had to "box well above its weight" – it had to do better just to keep going.

The union leaders noted the keys to Irish Economic Success as:

- 1) Access to Markets through the European Union
- 2) Low Corporate Tax Rate
- 3) Stability of the country (social partnership helped the stability)

Current Structure of the Social Partnership Agreements

Modernisation/Change Programmes are now the quid pro-quo for wage increases in the social partnership programme, with external verification. This is better for public sector unions than privatisation/contracting out, which is a response to the non-modernisation of the public services.

The Social Partnership agreements have changed over time, but the titles of the Agreements show how Ireland has progressed over the last 15 years. The National Economic and Social Council (NESC) is the body that represents most groups, and consists of 30 people meeting six times a year, moving up to monthly during the period when the social partnership is being negotiated. There is significant input from the National Competitiveness Council which decides what needs to be done in terms of government policy to increase competitiveness.

Ireland is now [2003] on its Sixth Partnership Agreement – Sustaining Progress - with the last Agreement having just been completed. For the first time the new agreement did not involve any reduction in taxes. A three year wage settlement is still a key component. For the first time in 35 years changes were negotiated in the redundancy act more to the liking of the Unions, despite the fact American multinationals don't want to recognize Unions.

Recent Pay Disputes

For 35 years, the Irish had a system where public sector pay was determined by looking at a basket of private sector salaries "benchmarking", with the consequence that pay determination was led by the private, not public sectors.

Current Medium Term Economic Outlook – In 2003, the ESRI projected 5% growth for the rest of the decade based on the assumption of a worldwide economic recovery. The main concerns are infrastructure, with a lot of money being spent very quickly and the personal inflation rate increasing much higher than the official rate for certain segments of the economy e.g. housing. In the past, the focus has been on economic growth, but now the desire is for a higher level of public services. After 15 years of lower taxes, 33.5% of GDP is spent on public services verses an EU average of 47%. A lot of restructuring has taken place in economy, as in addition to the fall in agricultural employment there has recently been a move away from manufacturing.

Whilst equality as measured by the GINI coefficient has fallen, wealth and good jobs have been created, and persistent poverty has been reduced in half. One way in which to create greater equality in the partnership model is a higher level of social services e.g. health being part of agreement.

Dermot McCarthy - Secretary General to the Irish Government

Mr. McCarthy was the original author of the National Economic and Social Council (NESC) document, and a key part of the social partnership.

"The issues almost defined themselves e.g. the fiscal crisis and inflation problem. The sense of crisis made agreement relatively easy. Ireland was in a vicious circle, where it was possible to show arithmetically how cutting the fiscal deficit would lower taxation."

Social partnership is "Like riding a bicycle, it is easier to do it than explain it". The key to Ireland's partnership was that it was dynamic, informal and flexible. Trust was created by the shared context of the partners being part of the analytical work process, so that when they sat down to negotiate the context had already been internalized by the partners. It requires that the partners take their concerns into account, and be shown to by the other partners. True consensus requires a need to show shared pain.

He adds "Social partnership is essentially a process of deliberation, involving a search for consensus in addressing trade-offs both between and within different interest groups in addressing joint problems."

In the longer run of social partnership agreements, the partners needed to take a strategic look over the past three years to ask "how have we done" and "how will we do in the next three years". Over time, the unions in particular had fallen off the bicycle due to lack of union leadership.

The previous way of operating was that the Government could do whatever it liked to employers and unions. Instead of edicts of one kind and rhetoric of another kind, the Government now has to set limits to its power, essentially sharing some with the social partners.

The Opposition leader offered conditional support, which meant that it did not require as much political selling as it would have if he hadn't.

When the Opposition finally achieved political power they were actually against social partnership on philosophical grounds as it limited their freedom of action. However, Mr. McCarthy believes the social partnership actually creates more democratic space in that whilst people still meet behind closed doors it is a more effective way of communicating the views of the main groups.

What would have happened without the partnership agreement?

Ireland achieved the largest fiscal adjustment ever in the OECD in a 12 month period. This would have generated much more protest, and would possibly have been politically impossible without a partnership agreement.

The original analytical report prepared by the NESC didn't have any impact because it was produced by wise men in a back room. Any agreement will not be driven by a report produced by wise men in a back room.

The keystone of the Irish Social Partnership was flexibility. There was no legal methodology for the way in which the agreement was implemented, but the terms have been respected. Whilst the Government didn't always reduce taxes as agreed, it typically committed to do it over a longer period, thereby maintaining trust. The issue of redundancy was also a key issue.

What did the employers give up in the first agreement (a key question for Jamaican unions from the perspective of shared pain?)

Some companies could have argued for no pay increase but instead they paid something. The employers also gave up decentralized pay bargaining. Pay levels were to be set at the level of a moderately competitive enterprise, as opposed to a highly profitable enterprise as had previously often happened.

What was the role of EU funding?

In overall terms, the EU money was only a small portion of national capital. Ireland concentrated on using the money to develop their human capital as in their view this was a much better investment, whereas the Portugese emphasized capital investment.

Labour Relations

Interview with Kieran Mulvey, CEO of the Labour Relations Commission (LRC)

1990 Act - Produced Labour Relations Commission (LRC) - www. lrc.ie

Background

The Irish situation can be divided into distinct periods: 1979-1987 was a "war of attrition" in labour relations, with 1986 being a watershed year as the prospect of being cut off from the capital market became a near reality, and the union leadership mindset became motivated to avoid a Thatcherite solution. It was helped by the fact that the whole country now understood the necessity to "Export or Die." The process was actually driven in Ireland by the Permanent Secretaries of the Civil Service rather than the Ministers through their own personal private engagement.

Kieran Mulvey, who has been CEO of the Labour Relations Commission (LRC) since 1991, is a former trade union official for the teachers union. Whilst part of the civil service, the LRC is an independent statutory government funded body with a 4.5m Euro budget which provides:

- Dispute conciliation services
- Advisory services re standards and codes of conduct
- Human resource policies/industrial relations services
- Employment law
- Rights commission

for both the public and private sectors. It operates in an environment where 95% of the Public services unions are unionized. The Government is trying to get better value for money through the reform of local government "Better Local Government" and a new National Health Strategy "Quality and Fairness". This is basically a process of public sector change management. The local government reform process is going much better than that of health.

The LRC gets 85% of its disputes resolved, whilst the unresolved disputes go to the Labour court which has a 95-99% resolution record. The main principle it operates on is that a "talk out is better than a walk out", building on the Irish love of talk, whilst trying to improve their capacity to listen. The LRC has 15 conciliation and mediation advisers, who deal with 1800 collective disputes a year, of which half are in Dublin and half outside, and are split 2/3 public sector, 1/3 private sector.

The meetings are combative rather than adversarial as the opposing parties have a high degree of respect for the institution, whose officers are perceived to be "clean", meaning not corrupt. Most parties come to the table with a willingness to mediate in a solutions orientated manner. Parties must have trust in the "Chairman", whose job is frequently to bridge the gap between the parties with a final proposal. For this reason, the independence and integrity of the Chairman is crucial.

In this regard, the independent civil service tradition left by their former colonialists the British has been retained, allowing the LRC to mediate an environment of "constructive adversarialism".

The key goals of the LRC in resolving disputes is to avoid scaring off foreign investors, and hurting the general public through service disruption, through allowing unions and management to build better relations in a tradition of voluntarism. The conciliation process is based on a honest broker, no surprises approach (don't ever put a proposal that surprises a client, particularly by putting them in a losing position.) The LRC always goes for a win - win solution, and tries to avoid prolonging the process by being very Spartan with its refreshments. It also encourages the parties to adopt a measured tone with the media.

The Irish "Labour Court" is a tribunal, not a court. The entire system is voluntary and non-binding: "The solution you produce yourself is your solution" – ownership of the solution is the key". There is no provision in Ireland to settle union disputes through the Courts, who don't feel they should be involved. If a case is sent to the Labour Court, it must be certified that every effort has been made to reach a solution.

In order to work, this tradition of voluntarism required strong informal relationships, confidence in the Civil Service, and the LRC continually showing that it was independent and could be trusted.

The early successes led to greater trust creating a virtuous circle. However, you are only as good as your last dispute – every dispute is important.

The LRC case loads every dispute, and trains with the U.S. Federal Mediation and Conciliation service and the U.K's ACAS, with whom they are also partnering with in technology. For example, they now can survey an entire workforce in 24 hours (and management) to find out what they really think.

Employers now call in the LRC to tell them that they are going through a change management process e.g. to increase productivity, and where they ultimately want to go (which often involved a move to Share options/Bonus schemes – in Ireland's case this process has been significantly helped by the availability of tax incentives for employees.)

The LRC then communicates this message to the unions, with the key hard question being "What has the union got to offer employers?".

The pay deals reward working on one's own initiative with allowances for productivity.

Irish Development Authority (IDA)

From interview with David Hanna from the IDA in 2003

The IDA's job is to create a better life for the Irish people in Ireland. Between 1840 and 1950 eleven million Irish people emigrated to the United States. The IDA was created in the 1960's as the consequence of the view that emigration was a bad way to deal with the problems of a poor economy, particularly as there was a view that emigrants had more energy and ambition. "Rather than export people to the jobs, bring the jobs to the people."

By 2003, the IDA had attracted 1,200 companies employing more than 137,000 people, and had twenty-four offices around the world. Their philosophy is "Knock on the door of the worlds great companies and say "Come to Ireland". The key attraction of Ireland is the low rate of tax, trained employees and strategic location e.g. next to Europe. "If you get the leaders, the followers will come." The first question business people abroad ask is "what is the state of the economy?"

IDA Sales Pitch

Ireland has a strong pro - business environment, including a prudent government spending and borrowing policy, high investment in education, pro-business regulatory framework for e-business, and a strong personal Government commitment to business shown by Minister's willingness to personally travel to seek business investment. Irish unions have a "constructive attitude", with successive social partnerships playing a role as they have removed wage bargaining for three years. Ireland is also a founding member of the Euro and its only English speaking member.

Secret of its Success

The IDA operated separate from the civil service, and recruited marketing oriented people with an aggressive mind set who were rewarded on results.

How did the IDA decide what industries to focus on?

- 1) Clean, environmentally friendly industries (Ireland is a small beautiful Island)
- 2) Strong growth potential
- 3) Matched the strengths of the educational system
- 4) High profit industries (low taxation therefore became an important incentive factor for investors)

The IDA was ultimately split into two to look after local industry (encourage indigeneous industry linkages) and foreign investors.

Financing

The IDA offers companies buildings (and gets planning permission), and has really good industrial estates available for turnkey foreign investment which it builds in conjunction with private property developers.

IDA does not charge fees, but does receive rental streams from buildings it has put up and rented to clients. Every five or six years, they take a root and branch "fresh look" at their economic policy assumptions (one is going on now [2003]). The principle on which they are funded by the Irish Government is that if we give you this amount of money, you must provide so many new jobs.

Financial Incentives

Grants to Companies The IDA gives grants on the basis of jobs created. Today, because of Dublin's excessive growth, the IDA gives nothing for a call centre located in Dublin, but gives a 10,000 Euro "employment grant" for every job created outside Dublin.

The IDA must project a payback period in terms of revenues generated of four years for the grant, otherwise the grant will not be approved. In addition, the IDA makes the parent company (large, credit worthy) responsible for the recovery of the grant money (rather than the local subsidiary which they could walk away from), which they will have to pay back if the jobs don't last for a specified period e.g. ten years. These days, grants have to conform to EU guidelines, and can be supported by additional EU grants.

When companies are closing, the IDA immediately looks for replacement investments. This has been a continuous evolution e.g. when Apple closed its manufacturing centre it was replaced by a customer technical support centre. The IDA also helps with marketing for small local companies created by people leaving the big companies. Non –IDA driven jobs are typically in the indigeneous, tourist and services sector.

The IDA has targeted three main clusters: Information, Communications and Technology (ICT), Chemicals/Pharmaceuticals/Health Care and related products, and financial services. For example, the electronics/software segment of ICT alone accounts for \$30bn of Ireland's \$90 billion in exports.

Development of the ICT Industry

This had three main phases:

- 1) Pre 1980 Simple stuff (manufacturing)
- 2) 1980-1988 More complex
- 3) 1989 -2003 Major growth trend

Software Segment of ICT – This sector grew in the mid 1980's, to the degree that there are now 800 companies producing software in 2003 (even more now). To attract this investment, the Government needed to commit long term to invest heavily in education, broadband access and R&D. The IDA now emphasizes helping companies with new product development, and is willing to subsidize up to 33% of the cost of R&D development.

A Case Study - The Story of Intel's Investment in Ireland

In 1989, Intel sent a nine person team to look at seven European countries e.g. France, Spain, Germany, Scotland, Wales, Austria and the Netherlands. Most of these countries were a level higher than Ireland in terms of technology (Ireland appeared to be in a different football league).

A previous plant had been located in Israel, but Intel decided in the end not to build another one there despite Israel offering a huge non-repayable cash grant. Intel felt they couldn't rely on the rules not changing there in the future, as had happened with a previous grant that had been used to entice them there. Whilst the grant was hugely more than what was eventually offered by Ireland (Ireland eventually offered \$87m when their entire grant budget for the year was \$75m), Intel chose Ireland as they trusted them more that the "rules of the game" wouldn't change. In a nutshell, it is possible to raise one's game to attract FDI.

The key difficulty for Ireland was their difficulty in convincing Intel that it had experienced electrical engineers. They got the names and addresses of 130 young Irish electrical engineers located in Silicon Valley, and persuaded them to turn up in a hotel room there and tell Intel they would be willing to return to Ireland to work for them.

Intel opened its first chip factory in Ireland in 1993, and now have nearly 5,000 employees in four factories, and are even doing some high-end chip designing in Shannon with Irish engineers.

A Brief look at Dell Computer in Ireland in the words of founder Michael Dell

"We set up in Ireland in 1990," Michael Dell, founder of Dell Computer. "What attracted us? [A] well-educated work force - and good universities close by. [Also,] Ireland has an industrial and tax policy which is consistently very supportive of businesses, independent of which political party is in power. I believe this is because there are enough people who remember the very bad times to de-politicize economic development. [Ireland also has] very good transportation and logistics and a good location - easy to move products to major markets in Europe quickly." Dell now have several thousand sales and technical people outside of Dublin, and are Ireland's largest exporter.

Irish Programme for National Recovery

Key insights from 1987 from facilitator Padraig U'Uhiginn in post trip meeting of the Jamaican study group of October 2003 designed to form Jamaican social partnership

The National Economic and Social Council (NESC) provided the analysis in 1986 of what needed to be changed.

"Never underestimate the ability to muddle through. The economic situation was unsustainable in 1980, but Ireland muddled through until 1987. A decision was made that this has to stop, that we can't continue to muddle through. It was like trying to turn a tanker, whilst looking at the abyss. I was writing reports for the NESC each year that the situation was "unsustainable", but nothing happened. "

As its Chairman, **Padraig U'Uhiginn**, had driven the social partnership process. At the time, he was the most powerful civil servant (in Jamaican terms he was the combined equivalent of the Cabinet secretary and head of the PIOJ). With a small coterie around him (and the full agreement of the Prime Minister and the Finance Minister), and the social partnership supporting the direction (as Chairman he was the bridge between the different sectors), he drove the process.

What was needed to effect change?

- personnel
- somebody within the system but able to operate outside the system
- agreement possible because people felt need to do something
- technocrats who had already written the direction Ireland needed to go several times, now wrote a more rigorous, intellectually sound, flexible strategy
- trade union package was the limits of what they could give

To stop muddling through, you need:

- 1) a crisis
- 2) or visionary types with balls

Managing change

How to change a decision making process that was clearly flawed was very difficult. One needs to break eggs to get change. The Government acted when it knew employers and trade unions were agreed, and that therefore they had political support.

The role of Education in transforming the Irish economy

Up to 20 years ago, there were four or five universities dominated by the traditional arts biases. Whilst a couple more universities have been created, the key is that approximately 12 Technical Institutes have been created throughout the country, also with the goal of increasing access in rural areas.

[&]quot;Dr. No". The Finance Minister who just said no had a key role.

The Role of the IDA

The IDA had strong links to other Government departments.

- 1) IDA (worked very efficiently to bring in overseas investment)
- 2) Enterprise Ireland (rationale for split was to emphasize local investment)

They created a different mindset at IDA of "We will do everything to make it happen." The board of the IDA was independent, with grant level authority appropriate to the transaction, a very simple process, specific criteria, formal memorandum submitted to Government, with other agencies under instructions where employment was involved to drop everything and make fast track decisions.

The key to the International Financial Services Centre (ISFC)

- 1) 10% tax rate (on corporate profits)
- 2) Fast track approval
- 3) Good supply of Irish émigrés
- 4) Good communications, time zone and airlift
- 5) Confidentiality

The Success of Tourism in Ireland

Ireland moved from 1.7 million tourists in 1986 to six million over a six year period, driven by a huge increase in British tourists due to cheap flights from London. The key to Ireland's tourism success was cheaper air lift, better overseas promotion, improvement of facilities and a better value for money proposition. Ireland deliberately kept down the equivalent of SCT (in Ireland this was called excise tax) to encourage tourism.

Key steps taken

Every month the social partners met with Government to discuss what was needed to move the economy forward. Irish tax rates as a percentage of GDP were high by international standards, so the key actions taken were to

- 1) Restrain the growth in borrowing by cutting the budget deficit which also reduced interest cost
- 2) With respect to taxation, the Irish implemented an effective tax amnesty which generated greater compliance particularly amongst the self employed
- 3) They didn't fill vacancies in the public sector

Job Creation and Investment Promotion



JOB CREATION & INVESTMENT PROMOTION

PREPARED BY MARK MYERS

JOB CREATION/INVESTMENT PROMOTION

The manifesto of the Jamaica Labour party emphasized the need for the creation of jobs and opportunities for entrepreneurship in Jamaica. The following is a compilation of some of the recommendations made by the private sector over recent years and represent the most attractive and immediate opportunities for generating jobs and economic stimulation in the country.

These revolve around some key initiatives in Kingston, Portmore and Montego Bay as follows:

- 1. Developing Kingston as a major Distribution/Logistics/Freezone and light manufacturing
 Hub or the Americas. Expected job generation 5000
- 2. Developing Montego Bay as the Business, Shopping & Entertainment Playground of the Americas. Expected job generation 5000
- 3. Developing Portmore as the ICT Financial Back office center of the Caribbean Expected job generation 3000
- 4. Developing Jamaica as an off shore financial centre. Expected job generation 5000

Each of the above will be expanded below:

KINGSTON AS A MAJOR DISTRIBUTION/LOGISTICS/FREEZONE AND LIGHT MANUAFACTURING HUB OR THE AMERICAS.

a. Introduction

The Port of Kingston is a major transshipment Port in the Americas, and during 2006, over 2.0 million Twenty Foot Equivalent Units (TEU's) were shipped through the Port. An expansion programme now underway will, on completion in 2008, increase the rated capacity to 3.2 million TEU's.

The development of a Distribution/Logistics Hub for the Americas, which will provide another pull for the movement of containers through the Port and create significant job opportunities, is now proposed.

This however will require partnerships possibility with the Chinese Shipping and Logistics companies and the Chinese manufacturers.

b. DISTRIBUTION/LOGISTICS /FREEEZONE HUB

Essentially, the Distribution/Logistics Hub facility will be operated as a free zone area where logistics companies can operate as distribution agents on behalf of companies worldwide.

Manufacturers or distributors would be able to either set up their own logistics operation in the facility or utilize the services of specialist logistics companies to undertake distribution of their goods on their behalf.

Already ZIM Integrated Shipping Services Ltd. has partnered with Jamaica Fruit & Shipping Ltd., has established Kingston Logistics Centre Ltd, and is offering logistics services out of the Port of Kingston.

Goods could be shipped to Jamaica from anywhere in the world via mainliners such as ZIM, CMA/CGM, China Shipping, Maersk, or other shipping lines. These goods will then be transported from the port to the Distribution/Logistics Hub, which is located in a duty-free zone where containers will be unloaded and repacked in smaller containers and/or consolidated with other shipments destined for other ports throughout the world.

c. THE AMERICAS AS A TARGET MARKET

The Americas as a region includes over 40 countries with a population in excess of 770 million people. The region experienced an average GDP growth rate of approximately 3.5% in 2006. In the Caribbean, ports have been expanding and improving their facilities to capitalize on the growing trade, with particular focus on developing cargo hubs for north-south and east-west trade.

d. CAPACITY OF PORT OF KINGSTON

The Port of Kingston handles approximately 80% of all imports into the island. It includes a modern container terminal, a large break-bulk wharf with roll on/roll off facilities, an oil refinery and a dry bulk terminal.

Kingston Container Terminal currently has sufficient capacity to handle in excess of two million TEU's per annum and is being expanded to over three million TEU's and is certified under the International Maritime Organisation's International Ship and Port Facility Security (ISPS) Code.

e. SHIPPING LINKS

There are several major shipping lines and feeder services currently utilizing the Kingston Container Port, including ZIM, CMA-CGM, Maersk and others. The main ports that are serviced include:

- Europe: Netherlands, Spain, Italy, France, the United Kingdom, and various Mediterranean States.
- North America: New York, New Jersey, Houston, New Orleans, Miami, Savannah, the US West Coast, Canada, and Mexico.
- Far East: China, Hong Kong, Japan.
- Caribbean, Latin America, & South America.

Jamaica is therefore able to tranship merchandise to ports worldwide.

f. WHY LOCATE IN JAMAICA?

Establishing a distribution Hub in Jamaica will be attractive to companies worldwide for the following reasons:

- Close proximity to North, South, and Central America; the Caribbean and the Panama Canal;
- Fuel, time and cost savings through enhanced efficiency of routing;
- Stable Government with a very open and democratic track record;
- Port of call for major shipping lines;
- Extensive experience with operation of containerised cargo transhipment port;
- An abundance of English speaking, trainable workers;

- Technologically advanced particularly in communications technology;
- Established direct sea cargo links to ports throughout the World;
- Established direct air links to airports throughout the Caribbean, North America, and Europe;
- Free trade Agreements with most countries in the Americas.

g. POTENTIAL PARTNERS

The infrastructure (roads, water, sewage, fibre optic cables and electricity) for the development of the logistics complex will need to be established either by the PAJ or via private sector investors or a joint venture.

The operators will provide their logistics warehousing and other specific needs.

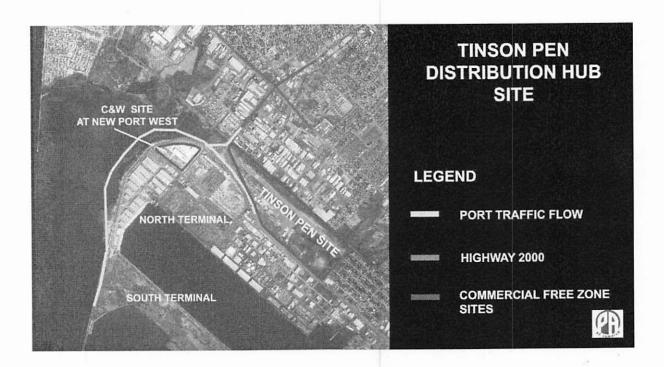
The main potential partners will be companies in China, as well as companies from South, Central and North America.

h. JOB GENERATION EXPECTED

Assuming that the approximately 100 acre Tinson Pen site is fully developed as a Distribution/logistics facility it is estimated that 2500 jobs can be created. Job creation in the freezone could be in excess of 2500 in the early development.

i. ACTION TO BE TAKEN

- Discuss and agree and get time line commitments that Tinson Pen will be developed as a first phase of the logistics/distribution Hub (MOTW/OPM/PAJ/CAA/AAJ);
- Develop plans for the relocation of the flight school at Tinson Pen and the existing operators either to a new airstrip in the Caymanas area or to Norman Manley airport;
- Develop the railway link between Kingston and Montego Bay will also need to be discussed and agreed;
- Discuss after agreement on plans, with ambassadors from China, USA, Chile, Brazil,
 Argentina, Canada et al.



2. MONTEGO BAY – The Business, Shopping & Entertainment Playground of the Americas

Montego Bay "The complete resort" now has the tremendous opportunity to expand into the "Business & Entertainment Playground of the Americas" provided that the vision is bought into and the necessary components are put in place.

a. The Components

Montego Bay is ideally located and does have some of the components already in place. In particular some of the critical pieces of the puzzle include:

- A modern airport that can act as a Hub for Airlines traversing the Americas;
- Five star Hotels that have some of the most beautiful sun sea and sand vistas in the world;

- Some duty Free shopping outlets already catering to overseas visitors;
- Some interesting tours and attractions

Other components now being implemented or planned in preparation for implementation include:

- The road infrastructure between Falmouth and Montego Bay;
- The Bogue Main road entering Montego Bay from the West;
- A stand alone Convention Centre which will now allow Montego Bay to attract the very lucrative meetings and convention business;
- A recreational park which is planned for the Old Hospital Site on the "Hip Strip" along Gloucester Avenue.

In order to earn the title of the business and entertainment playground of the Americas however there are some other components which need to be and can be put in place within three to five years. These include:

- A new town centre which includes Free Zone shopping, a new modern office complex with high end shopping, dining and entertainment venues intermixed with office towers. This centre can be located beside the existing Free Zone; the land is already owned by the Port Authority of Jamaica. In partnership with private developers this major component now needs to be put in place. The entertainment and nightlife attractions to be offered in the complex will become an attraction in itself for visitors and Montego Bay residents;
- A link via rail from this area (which is adjacent to the Cruise Ship Pier) to the Appleton Estate as a major attraction would cater to both cruise ship and land based visitors. The train ride and the Appleton Estate attraction will be a major highlight when visiting Montego Bay;
- The establishment of a permanent Entertainment venue such as at Catherine Hall would add the necessary icing on the cake.

b. Development Approach

The proposed development approach is as follows:

- The UDC should be charged with setting the broad development parameters for the entire Montego Bay area incorporating the new Town Centre, the Rail Link and the Entertainment Complex as urban planners;
- Private Developers should then be invited to submit proposals for the implementation of the development.

c. Marketing

The facilities will be targeted at the following markets:

- High end office space for banks and financial Institutions to establish operations in Montego Bay as offshore banking facilities;
- Lower end office space for the expansion of the ICT services business as a component of the development;
- High end retail outlets to attract shopping by existing visitors to Jamaica but more importantly the Latin American Market;
- Lower end mass marketed items will also be sold in the complex via showrooms linked to the Logistics operators in the Logistics Distribution hub operations in Kingston where mass orders will be shipped from;
- Air Jamaica will need to establish arrangements with Lan Chile to ensure the development of the Latin American Market in association with the JTB and the Hoteliers and Attractions operators to attract the Latin American Market;
- Training of staff will be critical especially in Spanish language and cultural customs of Latin American clientele;

d. Job Generation

 The job generation capacity of this development will be significant both directly and as a catalyst for the expansion of the Tourism Industry opening up the lucrative South and Central American Markets.

• It is estimated that over 5,000 jobs will be created by this development.

e. Action Plan

The Outline of the plans for this development should be undertaken by the UDC in collaboration with the PAJ and DBJ and inputs from JCC/MBCC.

Private sector developers should then be invited to present proposals for the implementation of the developments.

3. PORTMORE: ICT CENTRE OF THE CARIBBEAN

a. Introduction

- Portmore is strategically located across the harbour from downtown Kingston and the Norman Manley international airport;
- the population of Portmore is now approaching 300,000 persons most of whom are affluent, solid income earners, highly educated, youthful and own their homes;
- The infrastructure of Portmore is well established and water, electricity and fibre optic cable are all available.
- land for development is available both in private sector hands and public sector agencies
- Road transportation links into Kingston St. Andrew and the rest of St Catherine are very good though there are still bottlenecks entering into Kingston in the mornings.
- unemployment and opportunities for employment in Portmore is still a weakness as it is still largely a dormitory community with most of the persons living in Portmore working in Kingston, or Spanish Town;
- transportation by both ferry and train are no longer available
- control of development and enforcement of zoning is a challenge
- major development of industry and tourism has not taken place

b. ICT centre of the Caribbean

- The most significant opportunity is for Portmore to be the ICT centre of the Caribbean. This requires the collaboration of the private and public sector.
- Portmore has the assets of location, population that is highly educated and the basic infrastructure that is conducive to the development of this industry.
- The Factories Corporation has the land and the beginnings of a major ICT centre in Naggo Head with one existing 50,000 square foot facility that is fully occupied.

c. job generation

assuming that an additional 200,000 square feet of space is developed in Portmore it is estimated that 3,000 jobs can be created by this development.

d. action required

 The Factories Corporation of Jamaica needs to develop a basic framework and invite private sector investors/partners to develop the complex either on their own or via a joint venture with FCJ.

4. DEVELOPING JAMAICA AS AN OFF SHORE FINANCIAL CENTRE

a. Introduction

The leading IFC is London: much of the business of Cayman, Bahamas and BVI is actually to facilitate London's business. Caribbean Offshore financial centres (OFC) are thus merely a small piece of the puzzle in the recycling of the world's money, dependent for their success in the very competitive world environment on getting the balance of regulation right.

The typical Caribbean OFC benefits from the marriage of its offshore business viz private banking and high end tourism. Montego Bay would seem ideal for this venture.

In the opinion of international consultant Sam Lohman, who was involved in the BVI's success in this area, and who did a study on Jamaica's potential for what was then JAMPRO, in many ways Jamaica is one of the most ideal locations in the Caribbean for such an industry.

b. The Special case of the Irish International Financial Services Centre (IFSC)

The Irish IFSC is different from the Caribbean OFC's previously mentioned and is more similar in concept to a Freezone for international business services. It was not based on a zero taxation strategy but on a low corporate tax rate (10%) strategy, designed to take advantage of Ireland's extensive double taxation treaty network.

A wide range of activities and ancillary services can qualify for the Irish ISFC and are defined by the Finance Act, 1987 and subsequent legislation to include:

Banking, Asset Finance and Leasing,

Corporate Treasury Management,

Fund Management, Investment Management, Custody and Administration,

Futures and Options Trading

Securities Trading

Insurance, Assurance, Reinsurance, Captives and Broking

Specialised Financial Services.

c. Background to the IFSC

The newly elected Irish government of 1987, established Dublin's IFSC in the same year of its election as a brave new endeavour under legislation to boost economic activity and employment in a then depressed Irish economy.

At this time, the IFSC was essentially some "clapped out warehouses" by Dublin's waterfront, to use the exact words of one of the policymakers. The Government set up a marketing group which went around the world with some brochures. The former Governor of the Irish Central Bank (a member of the world's most powerful club) called the Central Bank Governor in each country they were visiting such as Japan to get him to arrange meetings with their local banks.

The committee sold what they knew, which was where it was going to be and the key IFSC selling point was its 10% tax regime with its broad range of allowed activities.

d. OTHER CRITICAL SUCCESS FACTORS

In addition, the following were also critical to its success:

- 1. Market Driven Product Development The committee asked the international banks if they were interested in setting up in Ireland's IFSC. They said no, but if Ireland made these changes to its product offering, they could become interested. This process of changing the product offering was entirely "market driven". The "Clearing House committee", where all the overseas banks suggestions were taken, was chaired by Padraig O'Huiginn. Padraig was the change agent pushing the IFSC, and kept changing the product offering to reflect the banks suggestions. Today Dublin's IFSC is globally recognised as a leading location for a range of internationally traded financial services.
- 2. Prime Ministerial Leadership Prime Minister Haughey's can do attitude provided strong encouragement for the development, whilst his willingness to get things done e.g. by changing the laws quickly, was also key.
- 3. Legislation must be Private Sector Driven The "Clearing House Committee" was dominated by commercial people, as according to one key interviewee "regulatory people need to be shown the opportunity to do professional business." New legislation was brought in, but "the marketplace drove what happened". The IFSC was basically saying to potential foreign investors "We're here, and prepared to provide a framework for doing international business that could be done elsewhere".
- 4. Target Corporations who are International Market Leaders The key is to go to the best company in the sector and ask "what would it take to get you to come here". More specifically, according to one key interviewee, to create a Jamaican IFSC you need to ask yourself: "What can we do legislation wise to make it an attractive environment for you to come to Jamaica?"

- 5. The Importance of being a Gateway Ireland was the Hong Kong of the region, functioning as the American beachhead into Europe. To be successful one needs to be a Gateway. It should be noted in this regard that Jamaica has the best airlift in the Caribbean.
- 6. Clear Cost Advantage To get international business you need to have a clear cost advantage, whilst to retain it you just need to be as good as the next person. Ireland is now experiencing competition from new lower cost European Union members such as Latvia, which may present an opportunity for Jamaica to partner with Irish or other international companies based their seeking lower costs. Whilst not cheap, Jamaica is much cheaper than existing offshore locations in the Caribbean.
- 7. Double Taxation Agreements Ireland's network of forty double taxation agreements was critical in attracting investment. The IFSC's development was driven by Ireland's double taxation treaty network (unlike Cayman which has no treaties). The advantage of a comprehensive double taxation treaty is that credit is given in the company's home country for any Irish tax suffered. Special allowances were also made e.g. accelerated capital allowances, which meant that leasing companies almost never paid tax (this works as long as they have a continually growing lease book).

Double Tax Agreement–For a Jamaican ISFC to succeed, the key is know to whom you are planning to sell the tax concept. For countries with double taxation agreements with America for example, you have to check the specific double taxation treaty as there are different clauses depending on when and with whom the treaty was agreed.

e. Current Contribution to the Economy

The IFSC is a vibrant part of the Irish economy. Recent figures showed that the Irish Exchequer collected more than €700m in corporation tax from IFSC companies in 2002. An estimated 10,700 employees worked in the IFSC in 2005, and this figure is expected to continue to grow.

f. CONCLUSION

If we look at what the IFSC helped Ireland to achieve we see that:

- 1) Tax reform, particularly a lower corporate tax rate, which created and stimulated economic growth.
- 2) A previously derelict city centre area was re-invigorated and this continues today even after the 10% rate has expired.
- 3) Employment was created both directly and indirectly, particularly increased opportunities for graduates.
- 4) There was no tax revenue loss, in fact a very significant gain of revenue to the government from additional corporate tax plus the payroll and other indirect taxes generated by greater economic activity.
- 5) The IFSC transformed Ireland's image internationally.

As part of the redevelopment of downtown Kingston, a Jamaican International Financial Services Centre (JIFSC) could be situated in downtown Kingston, driving development in general and jobs in particular. This would help satisfy the pressing need in Jamaica to generate employment opportunities, particularly in the financial services field to offset the trend of emigration of our highly educated graduates and financial experts.

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