

JAMAICA:
SOCIAL, ECONOMIC AND POLITICAL THOUGHTS
FOR FUTURE DEVELOPMENT

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A Framework for Community Safety

A strategy for analysing problems and mobilizing energy and resources

This section outlines the major elements of the framework for fostering community safety which are now being used by local governments in many countries. The approach includes:

- ~ recognizing community safety as a right and an issue of the quality of life in healthy communities
- ~ working across jurisdictional boundaries horizontally as well as vertically
- ~ the crucial role of political leadership
- ~ adapting strategies to local needs on the basis of good analysis and targeted plans
- ~ building capacity

Safe and healthy communities

Community safety - like health - is a central aspect of the quality of life of citizens, and one they are entitled to. Protecting communities from crime, or re-establishing levels of safety can be tackled in the same way as public health issues. A preventive public health approach, such as that used to reduce the incidence of heart disease, involves looking for the factors which increase the risks of its development. By looking at the patterns of economic and social problems in a neighborhood or community, and of crime, disorder and victimization, it becomes easier to see how and where to intervene. In the US, *The Center for Disease Control and Prevention* has been active in demonstrating how crime and violence can be seen as health problems; the *Communities That Care* program pioneered in Seattle is a good example.

Communities That Care in Seattle, Washington uses a public health approach. Its main goals are to reduce delinquency and drug use by combining knowledge about risk and protective factors and effective interventions, with carefully planned community mobilization. A community board of key local leaders, residents and agencies undertake an assessment of the main risk and protective factors and develop a strategy for intervention.

Similar programs are now being developed in the UK (Nuttall et al., 1998) Scotland and the Netherlands (Junger-Tas, 1997) as well as other states in the US. This type of approach encourages broader responses for victims too. Recognition of the long-term impact of crime on victims' health has resulted in programs which provide ongoing community assistance beyond immediate victim support. An example is the Boston partnership to support youth victims of crime and to prevent re-injury, since it is now well known that the risk of re-victimization is high once someone has been victimized (see box below). In London, England the local health service is now developing a health strategy which recognizes the links between crime, disorder and victimization and health, and thus the need to take a much broader view of prevention (Crime Concern, 1999).

Horizontal and vertical thinking

A second major theme is the development of collaborative *partnerships* which “think outside the box”. Working across boundaries is important for two major reasons. Isolated projects are unlikely to be effective in dealing with the multiple problems facing families living in deprived and high crime areas. In their review of what works in preventing crime, for example, Sherman and his colleagues (1997) concluded that effective crime prevention in high-violence neighborhoods requires

intervention in *many local institutions* at the same time. This applies to small town settings too.

Secondly, in many countries there has been frustration with years of funding, or project development, which does not have long-term or measurable impacts. Effective local government action requires all the municipal services to work together, rather than in isolation. It requires support from higher levels of government and links between national, state, region or province. This has been a major motivation for the policies initiated in England and Wales which stress the importance of working across jurisdictions and developing “joined-up thinking”, and has always been characteristic of the approach in France.

Political leadership - the role of the champion - everyone knows who the mayor is

The third theme relates to experience from many countries which has shown that there needs to be real *commitment and leadership* from someone at a high level who takes *responsibility* for putting the issues of community safety on the policy agenda. This has often been the mayor, a Chief Executive of a local authority, a Chief of Police or another key person at the local government level. In some cases a specific body or community safety officer is appointed and given the responsibility of animating and developing partnerships and plans. It is clear that local governments, whether mayors in big or small cities, local boroughs or municipalities are best placed to give citizens a *say* and a *role* in the development of their neighborhoods, and they can play a number of major roles:

- ~ *preventive* in terms of educating the population and the media
- ~ *active* in terms of providing aid to victims, facilitating mediation and resolution of local disputes and conflicts

- ~ knowledge *development and planning*
- ~ articulating the internal and external requirements and constraints
- ~ putting in place a *permanent local structure* with local coordination and the necessary resources

What brings communities together?

The NCPC asked a range of local government-community coalitions what had motivated them to work together. The answers show that it varies considerably, depending on local circumstances and events.

There may have been one or more of six different factors which acted as a catalyst or triggered action (*Creating a Blueprint for Community Safety*, 1998: 13):

- ~ a pending crisis and a sense that the situation would worsen without immediate action
- ~ community pressure arising from a catalyzing event or tragedy
- ~ success of an existing or related single issue initiative
- ~ support from outside
- ~ realization that single-focus interventions cannot deal with complex issues
- ~ desire to sustain safe neighborhoods and avert a crisis.

Adapting strategies to local needs on the basis of good analysis

The fourth theme to emerge has been the importance of thorough and careful analysis of local problems. This includes melding knowledge about the factors which place people and places most at risk, and effective intervention strategies for reducing those risks, with rigorous analysis of local problems.

A careful analysis of local problems - sometimes called a *safety audit* or a *security diagnosis* - requires the collection of detailed information about crime, victimization, disorder and fear of crime in a neighbourhood or across a whole

municipality or city (where, when, who). This can include police statistics, census data, as well as the results of local surveys of residents, businesses, schools, transport officials, hospitals. But the analysis needs to go further by looking at the links to a range of other problems such as housing, jobs and unemployment, school drop out, youth facilities and other existing community resources. A good security diagnosis can take between six months and one year to complete. This careful analysis allows for the development of targeted strategies and plans. Once projects have begun, they need to continuously monitored and evaluated to see if they are working as planned, or need to be modified.

Neighbourhood management projects are most likely to be successful if they adhere to the following five principles:

- ~ someone with overall responsibility at the neighborhood level
- ~ community involvement and leadership
- ~ the tools to get things done
- ~ a systematic, planned approach to tackling local problems
- ~ effective delivery mechanisms

The more focused the strategy, the more successful it is likely to be. This means, for example, allocating resources to:

areas where most crime occurs or hot spots

- ~ places already victimized
- ~ families most at risk
- ~ individuals most at risk
- ~ individuals who have been victimized

There may be differences in the types of approaches which can be used in small cities and rural areas compared with large urban areas.

The importance of capacity building

Developing *partnerships*, getting *funding* or *local security contracts*, conducting a *security diagnosis* or *safety audit*, developing an *action plan*, *implementing* and *evaluating*, and *sustaining* the plan are not simple tasks. They require expertise, information and approaches which may be very different from traditional ways of working.

Capacity building includes the development of the skills, practical knowledge, experience and tools required to undertake effective community-based action. Many countries now recognize the importance of capacity building. A growing range of training programs for community safety personnel, on monitoring and evaluating, training on special issues (eg., drugs, domestic violence, mental health) and the provision of on-going technical assistance, advice and support is now being developed.

In European countries training is being provided by organizations such as the *European Forum for Urban Safety*, *Crime Concern* and the London Borough of Brent in England and Wales, and In the US, the CCP's have been provided with technical assistance, as well as budget and program guidelines by the federal funders (BJA). The National Funding Collaborative on Violence Prevention (NFCVP) and the NCPC already provide training for collaboratives and local authority community safety initiatives. The NCPC is also developing a curriculum training program with Kansas University for use over the web.

The press and the media

Building capacity to develop public awareness of community-based prevention, and to utilize the media appropriately is another important area. This includes showing the benefits and successes from well planned strategies, telling stories about how problems have been reduced or solved. Mayors, and councillors, local agency staff, the police, community safety professionals, community members, researchers and evaluators all need training and clear policies, to develop their ability to communicate with the media. It is important to present initiatives as a *citizen* project to help to ensure community ownership.

It is important to be able to get information across quickly - in sound bites!

Local security contracts and funding

Community projects cost money for start-up, pilot projects, and implementation, as well as needing longterm funding. Resources are needed to *sustain* action at the local level; to *demonstrate* the effectiveness and efficiency of projects; and to *disseminate* information and best practices through transfer and training.

One of the major ways has been through the development of local security or community safety contracts which allow local partnerships to develop and tailor plans to their own needs. In many cases there are requirements that projects are monitored and evaluated.

Apart from specific grants and contracts from state or national organizations, pooling existing funding across local government agencies, with schools, community organizations, private foundations and businesses are all ways in which initiatives can be funded. The NFCVP pools resources from public and private sources to help local community coalitions develop programs to reduce violence.

Quality of Life and Social Safety: Ghent, Belgium

In 1997 a Safety Contract enabled a high-rise “problemestate” to improve its physical conditions and quality of life, reduce drug dealing, car theft and

burglaries, and escape from its “problem” image. Over 300 residents, local government and the police developed and carried out the plan.

CANTERBURY, MOUNTAINVIEW AND SPANISH TOWN ALL NEED A C.S.D.

In view of the fact that the government has limited funds to right the problem of crime in Jamaica, perhaps, what should be done is a **Community Safety Diagnosis (CSD), which is what is done globally in same or similar circumstances in which Jamaica finds itself now (21st Century Thinking).**

What Is A Community Safety Diagnosis?

The first step in co-producing security involves conducting a proper assessment of the problems and challenges in the given community in order to develop the most appropriate strategies for improving public security. A Community Safety Diagnosis is a knowledge tool that serves to better inform and guide actions taken.

How Does The CSD Work?

The Community Safety Diagnosis is a tool used to better identify the issues and challenges involved, to identify the risk factors at the local level, and to determine the measures most likely to be successful given the community's resources.

However, a diagnosis must go beyond simple description of issues and resources to also include a needs assessment based on the analysis of various types of data:

social indicators of risk such as unemployment and poverty rates, demographic and sociocultural make-up of the community, housing conditions and availability, and cultural and recreational facilities available; data on delinquency, delinquents, and victims, particularly police and court statistics, the rates of cleared offences, incidents reported by community associations, schools, businesses, community-based groups, and public transit authorities. Such data is used to identify and analyze geospatial variations in security measures between different areas of the

city. Use of geo-coding software can be used to produce maps representing geographical areas with concentrations and superimposition of various social and criminal problems. In turn, the use of such data collection and software does raise certain issues to be considered, both technical (collecting data that will be geo-codable) and ethical (protection of privacy), which a local committee would be best to resolve;

..data on the demands for security such as issues raised in neighbourhood meetings, victimization polls that evaluate the population's feelings of security, other surveys of professionals working on-the-ground in the relevant area, and analysis of data collected by prevention agencies that are already active;

..data on the supply of security services (e.g., existing resources and on-going interventions) by the various organizations responsible for ensuring safety: police, justice, private security, social services and associations, etc. Many indicators can be used to evaluate the supply of security such as, among others, the allocation of police resources, indictments and convictions, consideration of victims, use of private security firms by businesses, insurance claim rates, security activities carried out by other organizations and institutions (schools, public housing), and the quality of public places.

Correlating these quantitative and qualitative data from multiple sources creates a more comprehensive picture of the demand for security than that provided by police data alone. Next, people's security needs can be better identified by comparing information on the demand for A Safety Diagnosis' purpose is to compare measured and expressed safety needs to existing resources and actions being undertaken. Making this comparison successful involves the collection of various types of data, particularly social, economic, and criminal data. security with that on the supply of security services (actions and services offered by a plurality of actors). Such comparison allows the identification of non-response

zones (where needs are not being met) as well as areas where services are not in line with the demand (needs inadequately met).

Conclusion

It is this analysis of the adequacy of balance between the supply and demand for security that is at the heart of the Community Safety Diagnosis. When carried out by all local partners collectively, a diagnostic can serve to strengthen a local coalition and contribute to the development of a common vision for all stakeholders. Furthermore, this analysis allows priorities to be identified and assists in preparing action plans that are tailored to local contexts. One challenge to consider is that such a collective effort brings together actors with differing conceptions and interests who, by virtue of their institutional nature, are not always inclined to accept sudden changes.

This is a project The Ministry Of Local Government and the Social Development Commission could have a serious look at if it is not already on the drawing board.

The Road To Nowhere: A Global Corruption View

In some countries corrupt politicians appear to choose investment projects not on the basis of their intrinsic economic worth, but on the opportunity for bribes and kickbacks these projects present.

This type of corruption increases the number of capital projects undertaken and tends to enlarge their size and complexity. The result is that, paradoxically, some public investment can end up reducing a country's growth because, even though the share of public investment in gross domestic product (the total of all goods and services produced in a country in a given year) may have risen, the average productivity of that investment has dropped.

This conclusion runs counter to the bias of many economists. The conventional wisdom of the economics profession is that countries need capital to grow and, more important, that a direct relation exists between capital spending and growth. In other words, if a country engages in capital spending, growth is likely to follow. As a consequence of this belief, the economics profession has been strongly biased in favor of capital spending by governments. When economists evaluate the allocation of public money between current spending (for recurring, day-to-day expenses) and capital spending in government budgets, they tend to be critical of countries that allot a large share of government expenditure to current spending, but to applaud countries that refuse to stint on capital spending.

This bias is enshrined in the "golden rule" often advocated by economists. The rule states simply that only current expenditure needs to be balanced by ordinary revenue, but that a country can—within limits—safely run a fiscal deficit (an

amount it must borrow from domestic or foreign investors) equal to the capital spending of the government. You should cover the current budget with government revenues, but borrow whatever you can for the capital budget. Thus, it is all right to borrow to finance the building of new roads but not to finance the repair of existing roads, or to borrow for building a new hospital but not for hiring doctors or nurses or for buying medicines. This rule continues to be evoked as a good guide to policy even in the face of much evidence that some current expenditure—such as on operation and maintenance that keeps existing infrastructure in good condition or that contributes to the accumulation of human capital—can promote growth more effectively than capital expenditure.

Politicians have been quick to internalize this bias and have sensibly learned to exploit it. This pro-investment bias bloats the investment budget.

Public investment projects tend to be large and, sometimes, very large. Since their execution is generally contracted out to domestic or foreign enterprises, the first step is choosing a firm to undertake the project. For a private enterprise, getting a contract to execute a project, especially a large one, can be very profitable.

Therefore, managers of these enterprises may be willing to offer a "commission" to politicians who help them win the contract. Conversely, in many cases the act of bribery may not start with the enterprise but with the officials who control the decisions—in some countries it is apparently impossible to win a government contract without first paying a bribe. The payment of such a bribe is illegal in very few countries. In fact, the laws of certain major industrial countries regard commissions paid by domestic enterprises to foreign politicians as not only legal but also tax deductible.

A commission of even a few percentage points on a project that costs millions or even hundreds of millions of dollars can be a large sum, one large enough to exceed the temptation price for many otherwise reputable individuals. When commissions are calculated as a percentage of project costs, the politicians or public officials who receive payment for helping the enterprise win the bid will have a vested interest in increasing the scope or the size of the project so they can get larger commissions. A commission of 2 percent of the cost of a four-lane road is understandably more tempting than 2 percent of the cost of a two-lane road.

The process of approving an investment project can be an irresistible temptation for the unscrupulous. For example, a civil construction project (a road, building, or port) requires decisions related to specification and design issues, issue of tender (limited to a single firm or open to all), tender scrutiny, tender negotiations, and tender approval and contracting process. The completion of the project will require verification that the work has been done according to the contract. It will also require some arbitration about points of disagreement. The writing of contracts for complex projects is difficult and inevitably many areas of uncertainty and eventual disagreement will need to be resolved through negotiation.

In some of these phases, a strategically placed high-level official can manipulate the process to select a particular project. He can also tailor the specifications of the design to favor a given enterprise by, for example, providing inside information to that enterprise at the time of issuance of tender.

The enterprise that pays the commission rarely suffers from the payment of the bribe, since it is usually fairly simple to recover that cost. First, if it is assured by corrupt officials of winning the bidding competition, the enterprise can include the cost of the commission in its bid. Second, it can reach an understanding with the

influential official that the initial low bid can be adjusted upward along the way, presumably to reflect modifications to the basic design. Third, it can reduce its spending on the project by the amount of the bribe by skimping on the quality of the work performed and the materials used. Fourth, if the contract is stipulated in a cost-plus fashion, the enterprise can recover the cost of the commission by overpricing.

In all these alternatives that require the collaboration of a corrupt politician or official, the taxpayers will end up with either a more costly project—or a bigger or more complex project than necessary—or a project of inferior quality that will require costly upkeep and repair. Experience with public sector projects, especially in developing countries, is replete with stories about roads that are pocked with potholes soon after completion, power plants that experience regular blackouts, and sewer systems that don't work.

When corruption plays a large role in the selection of projects and contractors, some projects are completed but never used. Others are so poorly built that they will need continuous repair and their output capacity will disappoint. In these circumstances, it is not surprising that capital spending often fails to generate the growth economists expect.

Widespread corruption in the investment budget will not only reduce the rate of return to new investment in a country, but will also affect the rate of return the country gets from its existing infrastructure. To the extent that corruption has been around for some time, the existing infrastructure has also been contaminated because past investments were also misdirected or distorted by corruption. Moreover, higher spending on capital projects will reduce the resources available for other spending. Of the other spending categories, one not protected by

entitlements or implicit commitments is operation and maintenance—the current public spending required to keep the existing physical infrastructure in good working order. Too often, new projects are undertaken while the existing infrastructure is left to deteriorate. In cases of extreme corruption, operation and maintenance on the physical infrastructure of a country are intentionally neglected so that some infrastructure will need to be rebuilt, thus allowing corrupt officials the opportunity to extract additional commissions from new investment projects.

A principal source of assessments of the degree of corruption in various countries is Business International and Political Risk Services, Inc., which publishes an annual index, *International Country Risk Guide*, covering the 1982–95 period for 42 to 128 countries, depending on the year. In this index higher corruption indicates that "high government officials are likely to demand special payments" and "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, police protection, or loans." Data on specific aspects of government spending and revenue collection, meanwhile, may be drawn from the IMF's *Government Financial Statistics*.

An examination of the data from these two sources suggests the formulation of several clear hypotheses concerning the relationship between corruption on the one hand and (1) public investment, (2) government revenue, (3) operation and maintenance expenditures, and (4) the quality of infrastructure on the other. The authors test the hypotheses against statistical evidence, analyzing cross-country data through the use of a statistical tool called regression analysis to estimate the strength of the relationship between corruption and these four variables. In guarding against spurious regression results, and depending on the regression, the researchers controlled for other variables, such as real per capita GDP, the ratio of

government revenue to GDP, and the ratio of public investment to GDP. Their hypotheses follow.

It has been known for some time that corruption is most prevalent in infrastructure projects, usually large civil engineering projects. Current evidence, however, has linked corruption only to the *quantity* of investment and not its *quality*. It was argued above that high-level corruption induces countries to increase the quantity of infrastructure because of the bribery potential of new infrastructure investment. In addition, the quality of existing infrastructure will tend to deteriorate if corruption leads to cutbacks on operation and maintenance expenditure.

Finally, for the future we need to keep four points in mind:

1. Corruption can reduce growth by increasing public investment *while reducing its productivity*.
2. Corruption can reduce growth by increasing public investment that is not adequately supported by nonwage expenditure on operation and maintenance. Evidence also shows that higher corruption is associated with higher total expenditure on wages and salaries. Wages and salaries are a large component of government consumption, and higher government consumption has been shown to be unambiguously associated with lower growth.
3. Corruption can reduce growth by reducing the quality of the existing infrastructure. A deteriorating infrastructure increases the cost of doing business for both government and the private sector (congestion, power outages, accidents) and thus leads to lower output and growth.

4. Corruption can reduce growth by decreasing the government revenue needed to finance productive spending.

THE STORY OF FISCAL POLICY IN JAMAICA

Recent research out of the Inter-American Development Bank gives an interesting “story” on the performance of fiscal policy in Jamaica, I share it with your readers.

Jamaica had a poor growth performance during the 1990’s, but managed to reduce the inflation rate to a single digit and to service regularly a huge public debt of about 130% of the country’s GDP. This high indebtedness was in part a consequence of the financial crisis of the early 1990’s and led the government to change its policy mix so as to achieve a primary surplus in the range of 10% of the GDP.

Tight monetary policies and a high public debt had pressured real interest rates and required enormous primary surpluses to reduce the Debt/GDP ratio. Jamaica seems to be trapped by low growth, a debt overhang and a **politically costly high primary surplus**.

Good fiscal institutions together with other structural reforms (e.g. good banking regulation) will help to reduce real interest rates and foster growth. Medium-term growth depends on investment and productivity gains. Macroeconomic data for Jamaica points to relatively high investment levels but of low productivity, at least by looking at the recent growth performance of the country. A flawed tax system may be one reason for low productive investments.

Fiscal policy may help to achieve higher growth by reducing the burden of the public debt and then real interest rates, by improving the allocation of investment

through a better tax system, and by reducing macroeconomic volatility through a prudent behavior of primary government expenditures.

Jamaica has sound fiscal institutions and this has been captured by previous comparative studies on budget institutions in Latin America and the Caribbean. Constitutional provisions work effectively in creating an environment for fiscal control by making debt service mandatory as the first charge on resources and by giving a centralized role to the Ministry of Finance. Even though there have been interesting findings and useful recommendations that have stressed the role of cash management and some strategic aspects of the design of the budget process, these have seen relatively marginal improvements and do not involve major designs that can be judged to have an impact on fiscal outcomes since they do not necessarily involve major improvements upon existing institutions that tackle the fundamental problems of incentives for the control of expenditures and deficits (or primary surplus generation) within an efficient running of public sector activities.

In spite of this good institutional design the public debt is too high. There are some other aspects that come under two major headings that are, first, improving accountability and transparency and, second, exploring ways of improving existing institutional arrangements in some new dimensions to cope with sudden or unexpected u-turns in performance.

First, and from a point of view of accountability and transparency, the main apparent weakness of the budgetary process in Jamaica is that the public sector enterprises and other fiscal operations that fall outside Central Government do not allow an easy consolidation of public accounts to assess fiscal performance. Given

that public entities are not integrated in the budget process in the same way as ministries and agencies and that the information on non Central Government accounts is not obtained from the Budget Memorandum, there is a case for extending the hard-budget-constrain institutional setting to the rest of the public sector. This needs to be assessed through a careful design analysis, encompassing regulatory reform on public services that does not conflict with efficiency objectives of decentralization and arm-length relationships.

Further steps in the same direction have to do with efforts to make budget executions to be consistent with approved budgets and with improvements in formal budgetary procedures that have been stressed by other recent evaluations by multilateral agencies.

Second, the evaluation of fiscal institutions and fiscal outcomes in Jamaica shows an obvious stress between strong fiscal institutions and rocketing deficits and debt accumulation that come from hidden liabilities outside formal budget allocations and take the form of fiscal liabilities surprises. There is, then, a twofold objective of fiscal consolidation and of avoiding future fiscal surprises.

Recommendations that should be considered are:

- a. The design of additional explicit fiscal rules that act as constraints that insulate or insure fiscal outcomes from fiscal surprises. While the case for explicit rules may not be clear for fiscal consolidation if existing institutions generate good results, the point is rather if the introduction of explicit rules make fiscal results more sustainable and act as an insurance against adverse shocks. Fiscal responsibility laws that set the path of fiscal deficits and public debt appear to be the main candidates for consideration.

b. The design of contingency funds able to cushion external shocks or to absorb the impact of fiscal surprises through hidden liabilities. Since the problem of Jamaica is more related with relatively sudden fiscal liabilities surprises rather than with cyclical stabilization, contingent funds are needed.

c. The introduction of accrual accounting in the budget process that takes into consideration potential liabilities. This has been recognized by the multilateral institutions for transparency reasons and as a move toward a system of commitment based accounting. From a fiscal policy perspective it allows a correct treatment of hidden liabilities and makes fiscal outcomes more predictable and therefore controllable.

Does Governments Monetary Policy Aid Corruption?

The role of corruption in the design of monetary policies for developing countries in a framework of fiscal and monetary interaction obtains several interesting results. First, pegged exchange rates, currency boards, or dollarization, while often prescribed as a solution to the problem of a lack of credibility for developing countries, is typically not credible in countries with serious corruption. Second, the optimal degree of conservatism for a type central banker is an inverse function of the corruption level. Third, either an optimally designed inflation target or an optimal-conservative central banker is preferable to an exchange rate peg, currency board, or dollarization.

Recent research out of the International Monetary Fund (IMF) and The World Bank found the following interesting results:

- 1) The Optimal Inflation Target is higher for a high corruption country than for a low corruption country. Therefore, an inflation rate of 4 % or less that is common in advance industrialized countries is generally not something to be emulated by developing countries.
- 2) Pegged exchange rates, currency boards or dollarization, partial or otherwise are often prescribed as ways to solve the lack of credibility problem. The results showed that these monetary regimes themselves are typically not very credible and are likely to fail in countries where corruption is high.
- 3) A conservative Central Banker is generally preferred to a mechanical inflation target and to all exchange rate-based monetary arrangements. In equilibrium, the optimal degree of central bank conservatism is inversely related to the level of corruption in the economy. In the limit, when corruption makes collection of tax revenue infeasible, the optimal degree of conservatism is zero.

4) Severe corruption can be a debt trap itself. When the initial level of corruption is significantly high, it would be difficult to induce authorities to devote effort to fight it.

The debate continues, however if we are to be full-fledged members of the Global Village and compete, we must re think policies in the country in line with 21st century thinking.

Effects of Corruption on an Economy

Corruption reduces public revenue and increases public spending. It thus contributes to larger fiscal deficits, making it more difficult for the government to run a sound fiscal policy. Corruption is likely to increase income inequality because it allows well-positioned individuals to take advantage of government activities at the cost of the rest of the population. There are strong indications that the changes in income distribution that have occurred in recent years in economies have partly been the result of corrupt actions.

Corruption distorts markets and the allocation of resources for the following reasons, and is therefore likely to reduce economic efficiency and growth.

1) It reduces the ability of the government to impose necessary regulatory controls and inspections to correct for market failures. Then the government does not satisfactorily perform its regulatory role over banks, hospitals, food distribution, transportation activities, financial markets and so on. When government intervention is motivated by corruption, as for example when the government creates monopolies for private interests, it is likely to add to the existing market failures.

2) It distorts incentives. As already mentioned, in a corrupt environment, able individuals allocate their energies to rent seeking and to corrupt practices and not to productive activities. In some cases, the resulting activities have a negative value added.

3) It acts as an arbitrary tax (with high welfare costs). Corruption's random nature creates high excess burdens because the cost of searching for those to whom the bribe must be paid must be added to the cost of negotiating and paying the bribe.

Also, the contractual obligations secured by the payment of a bribe are more likely to be violated when corruption is decentralized.

4) It reduces or distorts the fundamental role of the government in such areas as enforcement of contracts and protection of property rights. When a citizen can buy his or her way out of a commitment or out of a contractual obligation, or when one is prevented from exercising one's property rights because of corruption, this fundamental role of the government is distorted and growth may be negatively affected.

5) It reduces the legitimacy of the market economy and perhaps also of democracy. In fact, the criticisms voiced in many countries, especially in transition economies, against democracy and the market economy are motivated by the existence of corruption. Thus, corruption may slow down or even block the movement toward democracy and a market economy.

Finally, corruption is likely to increase poverty because it reduces the income earning potential of the poor.

GLOBALIZATION & THE POOR

Globalization has helped reduce poverty in a large number of developing countries but it must be harnessed better to help the world's poorest, most marginalized countries improve the lives of their citizens.

A recent study out of the World Bank on Globalization and the effects of poverty, puts forth a seven-point plan to help all developing countries better take advantage of the benefits of globalization while managing the risks. It calls on poor countries to improve their investment climates and put in place better social protection to support poor people in adapting to and taking advantage of opportunities in a changing economic environment. It also calls upon rich countries to open their markets to exports from developing countries and to slash their large agricultural subsidies, which undercut poor country exports. The report argues for a substantial increase in development assistance, particularly to address problems in **education and health**.

Specifically, the seven-point plan of action calls for:

- 1) **A 'Development Round' of Trade Talks** – Developing countries would gain enormously if rich nations make the WTO Doha Development Agenda a reality and agreed to bring down their trade barriers. Poor workers in developing countries today face tariffs twice as high as workers in rich countries. This must change. Rich countries must also take action to reduce dramatically their agricultural subsidies – which currently stand at \$350 billion a year, roughly seven times what rich countries spend on

development aid. These subsidies not only hurt poor people in developing countries, they also mean higher taxes and higher prices for people in rich countries. Developing countries would also benefit from better access to each other's markets – barriers between them are still higher than the barriers they face in rich countries.

2) Improving the Investment Climate in Developing Countries –

Encouraging investment and creating jobs requires good economic governance – measures to combat corruption, better-functioning bureaucracies and better regulation, contract enforcement, and protection of property rights. This is especially important for small and medium-sized firms and farms, which are key to job creation and to raising living standards of the rural poor.

3) Improving Delivery of Education and Health Services – The developing countries that have gained the most from integrating into the world economy have shown impressive gains in primary education and infant mortality. This suggests that many countries have made investments in education and health services that enable the poor to benefit from growth.

4) Provide Social Protection to a Changing Labor Market – Tailoring social protection to the needs of a changing economy helps individual workers adjust to the challenges of a more open economy. Better social protection enables workers and entrepreneurs to take more risks and to avail themselves of new opportunities.

5) Rich Nations Should Increase Foreign Aid – Evidence shows that private investors can be slow to respond when low-income countries improve their

investment climate and social services. It is precisely at this stage when large-scale aid can have a great impact on growth and poverty reduction. Aid should also address the serious health and geographic problems of the most marginalized countries. Foreign aid has fallen to 0.22 percent of donor countries' GDP --its smallest proportion since it was first institutionalised with the Marshall Plan in 1947.

6) Support Debt Relief for Reformers – Reducing the debt of the most marginalized countries, especially in Africa, will enable them to participate more in globalization and the benefits it can bring. Debt relief is particularly powerful for those countries that improve their investment climate and social services. Debt relief packages are now in place for 25 countries under the enhanced HIPC Initiative for which total committed assistance is estimated at some US\$36 billion. It is critical, though, that further debt relief should not come out of the shrinking pie of foreign aid, which would simply move aid resources around. Debt relief must come in addition to foreign aid.

(7) Tackling Greenhouse Gases – There is broad agreement among scientists that human activity is leading to potentially disastrous global warming, and that these changes in climate will be especially burdensome for poor countries and poor people. The report urges more effective international cooperation to address these problems.

Our Government needs to keep these 7 points in mind when they are negotiating on our behalf in International Forums.

IS THERE A GOVERNMENT YOUTH POLICY?

“All who have meditated on the act of governing mankind have been convinced that the fate of the world depends on the education of youth.”

Aristotle, Political Philosopher

In his 1999/2000 sectoral budget speech on youth, the then Minister Fritz Jackson said that the government had embraced the UN World Plan Of Action For Youth 2000 And Beyond Programme. However, since then there has been no clear policy initiative and direction on this matter and what a present is happening is an ad-hoc approach, with every Ministry and Agency doing their own thing. What is the ideal situation?

A NATIONAL YOUTH DEVELOPMENT PROGRAMME

The U.N. World Programme of Action for Youth to the Year 2000 and Beyond contains the primary set of guidelines for youth policies to be carried out by Member States of the United Nations, of which Jamaica is a member. It covers ten priority areas for national youth policies and provides a framework to measure and evaluate achievements.

These ten areas are: **Education, Employment, Hunger and Poverty, Health, The Environment, Drug Abuse, Juvenile Delinquency, Leisure-Time Activities, Girls and Young Women and Youth Participation in National Life.**

As of February 2003, 5 more areas have been added: Globalization, Information and Communication Technologies (ICT), HIV/AIDS, Youth and Conflict Prevention and Intergenerational relations.

A National Youth Development Programme for Jamaica **should address the above areas in some form or shape.**

RECOMMENDATIONS

1. **The Ministry of Youth needs to high prioritize the new youth policy promised for January 2003 and the Youth Action Plan for February 2003.**
2. **The Policy must be written like a 5-year development plan in order to streamline youth expectations.**
3. **The National Centre for Youth Development (NCYD) needs to play a more Global activist youth role, rather than just endorse what comes out of Government, ie they must be more proactive within the GLOBAL YOUTH FRAMEWORK rather than reactive.**
4. **If there is a clearly defined National Youth Development Programme and National Youth Action Plan (A-la-Braga Youth action Plan) as promulgated in no. 1, civil society and the business community will find it easier to assist and take part in, as such funding to a greater extent will be come a non- issue and funds from the Private Sector will be better spent for the needs of the youth of Jamaica.**
5. **In the context of Sustainable Community Development (SCD) which is being strongly promoted by the Ministry of Local Government through its Local Government Reform Programme (LGRP) and the need to reconnect with the people at the community level, rural and urban, this would enhance the LGRP, which is what the minister was referring to in part, in a recent speech on youth matters at the PNPYO youth conference.**
6. **I note with interest that neither of the two political youth arms of the major political parties has deemed it fit to tackle any of these YOUTH FUNDAMENTALS; perhaps a National youth forum on these youth**

fundamentals could be useful not only to their common political interest but the youth of the nation as a whole. This would display STRONG LEADERSHIP on their part.

JAMAICAN POLITICS AND SIR ISAAC NEWTON

Newton's Third Law Of Motion States: for every action there is an equal and opposite reaction.

Jamaica forgot about 7 articles of the UN Convention On The Rights Of The Child, which it ratified: **We had problems in our children's homes.**

The Anti-Dumping Commission hikes tariff on imported cement: **Jobs are saved in the political constituency of Kingston Eastern and Port Royal but in The Constituency of St Andrew South Western people lose jobs, 66.57% of which are in the 17-24 age group. Will the SESP in the latter situation be increased to assist them?**

Jamaica agrees to the UN Millennium Development Goals (Their report has not reached The UN to date, I guess they will wait to the December 31, 2004 deadline), Goal No.8 Target 12 States:

Develop further an open rule-based, predictable, non-discriminatory trading and financial system, which includes a commitment to good governance: **Whither the National Industrial Policy or not and future investment?**

In Jamaica we must realize we live in a global village, as such, we must be open minded, and prepare our selves for the future by acquiring a greater tendency for "out of the box thinking". Failure to do so we will continue to be victims of the **"Sir Isaac Newton Syndrome"**

Parish Capitals & The CDS

“Within twelve (12) months, all Local Authorities will be required to develop a Reform Plan in accordance with the new policy guidelines. If this Plan is not forthcoming from the Local Authority, at the expiration of the agreed time period, the Ministry of Local Government, Community Development & Sport reserves the right to intervene to establish such a Plan. “

Local Government Reform Programme, Ministry Of Local Government

Recent research out of the World Bank speaks to the fact that a rapidly increasing share of the world's population is living in cities. In the next 15 years the population of many cities, especially in Asia and Africa will nearly double. In order to confront the challenges posed by this unprecedented rate of urban growth and increasing urban poverty, cities need to plan ahead in order to make more informed choices about the future and they need to act now.

A city development strategy supports cities in this critical decision making process and is focused on implementation. It is an action-plan for equitable growth in cities and their surrounding regions, developed and sustained through participation, to improve the quality of life for all citizens.

The output of a city development strategy includes a collective city vision and a strategic action plan aimed at policy and institutional reforms, increased economic growth and employment, and implementation and accountability mechanisms to ensure systematic and sustained reductions in urban poverty.

Because cities are made up of people and their hopes – not of buildings and streets, there is no universally applicable best practice for the implementation of a city

development strategy. Each city needs to recognize and to identify its own opportunities and problems, which may vary considerably according to its location, level of economic, social and institutional development and many other factors.

City development strategies underscore the importance of city officials themselves taking the lead, while actively involving the urban poor and local business leaders within a wider participatory process. Thorough assessments of the city and its region, which include the assets and knowledge of the urban poor, have proven to be an essential starting point for a city development strategy. However the success of the strategy also seems to depend on its ability to mobilise and engage not only the public, but also the business and community sector.

Other key building blocks of a city development strategy include creating a shared strategic understanding among all stakeholders (vision building); the focus on points of leverage and results (strategy); and the focus on implementation and monitoring mechanisms.

What Has Happened to the KSAC Sustainable Development Plan?

In December 2001 the KSAC received from the World Bank's City Alliance Project a grant of US\$253, 145 to prepare and write the **Kingston and St. Andrew Sustainable Development Plan**. Since we are in the 21st century as most people in active politics seem to have forgotten; will the World Bank /City Alliance Project be approached to do a similar job using this same grant money for say **Montego Bay, Mandeville, Falmouth (Heritage Tourism)** or **Port Antonio** (tourism interest in mind).

What has happened to the **Kingston and St. Andrew Sustainable Development Plan**, this 30-page document and its implementation? If there is a problem in implementing due to a lack of funds , Why not approach the same project assistance area of the World Bank for another grant? What are we waiting for?

The document for the KSAC summarized is as follows:

Overview

The challenge is to reshape social and economic dynamics to form a more integrated and efficient system linking residential and employment areas, providing access to urban services and work opportunities and more supportive relationships between social and ecological systems.

Objectives

- Ownership and implementation by people in communities, the business sector, the local authority and state agencies
 - Strategic document that builds on a shared vision for KMA and contains strategies, goals and targets, management systems, and performance indicators
- Guiding the preparation of a new Development Order (the regulatory land use instrument) and the preparation of a KSAC Corporate Plan (the institutional action plan for city management.)

Activities

- Partnership Building
- Local Sustainable Development Planning
- Early Actions
- Implement print, public media and electronic communication activities at each stage of the planning process. Document and disseminate information and build consensus to inform national local government and planning reform initiatives

Expected Impact and Results

- 1) Improved quality of life through well managed urban service delivery, enhanced urban design and land use zoning, and infrastructure improvements
- 2) Improved environmental quality of the KMA through the management of coastal and mountain ecosystems, integrated land use planning, enhanced environmental stewardship of the urban built environment and the design and upgrading of urban green spaces.

3) Increased socio-economic opportunities through the creation of an enabling environment for business, the creation of city-wide strategies for economic development and revenue enhancement and strategies that explicitly target the urban poor

4) Improved management capability within the local authority, as well as civil society to undertake and manage local sustainable development

The transfer of lessons learned in the unfolding of local sustainable development process in KSA into national planning and local government reforms.

Over To You, Your Worship The Mayor.

LABOUR PRODUCTIVITY IN JAMAICA

Productivity is concerned with the use of resources (inputs or factors of production) in order to obtain the output of goods and services.

In practice, two concepts of productivity are used: labour productivity which relates the amount of output produced relative to the labour resources used (labour hours or number of workers employed) and total productivity, which refers to the output produced relative to all the inputs used (labour, machinery, equipment, raw materials, energy, etc). Productivity increases when fewer resources (inputs) are used to produce the same level of output or when the production of more and better quality output takes place with the same resources.

Productivity growth is affected by several factors at the macro-level: sectoral allocation of resources, economies of scale, trade orientation, human resource development policy, research and development policy, technological change, the development of social infrastructure, the regulatory environment and the international business and political environment. At the micro-level, some of the factors which affect productivity include the choice of incentives, supervisory practices, use of shift systems, training schemes, general working conditions and relationships, use of modern technology, management systems and the organization of plant. In a highly competitive environment, increasing productivity and quality are important to long term profitability since firms might not be able to increase prices.

Using the ratio of real GDP to the number of persons employed as a measure of

aggregate productivity, the data indicate that labour productivity declined steadily between 1980 and 1986 (from J\$19,487.76 in 1980 to J\$17,187.73 in 1986), followed by a gradual increase from 1987 to 1993 and then a decline from 1994 to 1998.

With the upward trend in the number of persons employed, the changes in labour productivity reflected the changes in real GDP over the period. Over the period 1980 to 2000, the average annual growth rate in labour productivity was 2.2 percent, which is relatively low given the high investment to GDP ratio. Over the 1980-2000 period, the ratio was over 25 suggesting that the labour productivity should have been much higher.

Three possible reasons have been advanced for the coexistence of a relatively high investment to GDP ratio and the relatively low level of aggregate labour productivity. First, measurement error in the real GDP estimates might have arisen because of the significance of the informal sector in the Jamaican society.

While national accounts data are obtained from established or registered enterprises, employment data are obtained from a survey of households. In effect, there is likely to be a mis-match between output and employment data. Second, resources may have been invested in areas with the highest potential long-term returns, so that the puzzle may be due to allocation inefficiencies in the capital investment process. Finally, high interest rates may have crowded out sound projects with long-term net benefits.

Pension Reform In Jamaica: A Look at the Chilean Model

"A radical transformation of social security has been initiated in Chile, and we should give it a close look. It is the creature, primarily, of a young and brilliant Harvard Ph.D. in economics, a student of Nobel Prize winner Kenneth Arrow. His name is Jose Piñera and he is the minister of labor"

William F. Buckley Jr., November 1980

"The Chilean system -now being emulated or studied in six other Latin American nations- is perhaps the first significant social-policy idea to emanate from the Southern Hemisphere"

Joe Klein, Newsweek, December 12, 1994

The pay-as-you-go system that reigned supreme through most of the 20th century has a fundamental flaw, one rooted in a false conception of how human beings behave: it destroys, at the individual level, the link between contributions and benefits-in other words, between effort and reward. Whenever that happens on a massive scale and for a long period of time, the final result is disaster.

Overview

Jose Pinera, in his **Empowering Workers: The Privatization Of Social Security In Chile** makes some salient points, which can be of use to legislators in Jamaica in examining our pension reform for the future.

1) Two external factors aggravate the consequences of that flaw: the global demographic trend toward decreasing fertility rates and medical advances that are lengthening life. As a result, fewer workers have to support more and more retirees. Since increasing payroll taxes generates unemployment, sooner or later promised benefits have to be reduced, a telltale sign of a bankrupt system. Whether benefits are reduced through inflation, as in most developing countries, or through legislation, the result is the same: anguish about old age is created, paradoxically, by the inherent insecurity of an unfunded "social security" system.

2) In Chile, the Pension Reform law of 1980 introduced a revolutionary innovation. The law gave every worker the choice of opting out fully from the government-run pension system and instead putting the former payroll tax in a privately managed personal retirement account (PRA). Since 95 percent of the workers chose the PRA system, the end result was a "privatization from below" of Chile's social security system.

3) In 2001, the results spoke for themselves. Retirement benefits in the PRA system already are 50 to 100 percent higher depending on whether they are old-age, disability, or survivors' retirement benefits-than they were in the pay-as-you-go system. The resources administered by the pension funds amount to \$40 billion, or around 55 percent of GNP. By improving the functioning of both the capital and the labor markets, the pension reform has been one of the key changes that has substantially increased savings and doubled the growth rate of the economy.

4) The success of the Chilean pension reform has led another 15 countries in Latin America and Europe to follow suit. In January 2001, even Sweden, once an emblematic welfare state, allowed its workers to put 2.5 percentage points worth of their 18.5 percent payroll tax contribution into an individual retirement account. Those developments led *The Economist* to state: "Radical reform of social security is the next great liberal reform, easily as significant a change as privatization of state owned enterprises-also dismissed in its time as Utopian. On retirement benefits Latin America has led the way. Let the world follow."

How does it work?

1) Under Chile's social security system, what determines a worker's retirement benefit is the amount of money he accumulates in his PRA during his working years. Neither the worker nor the employer pays a payroll tax. Nor does the worker collect a government-funded benefit. Instead, 10 percent of his wage coming from the previous payroll tax is deposited; tax free, by his employer each month in his own PRA. The 10 percent rate was calculated on the assumption of a 4 percent average real return on a PRA during a whole working life, so that the typical worker would have sufficient money in his account to fund a retirement benefit equal to approximately 70 percent of his final salary. A worker may contribute up to an additional 10 percent of his wage each month also deductible from taxable income, as a form of voluntary savings. The return on the PRA is tax-free. Upon retirement, when funds are withdrawn, taxes are paid according to the income tax bracket at that moment.

2) A worker may choose any one of the private pension fund companies (called Administradoras de Fondos de Pensiones, or AFPs) to manage his PRA. A key

provision is totally free entry to the AFP industry, for both domestic and foreign companies (foreign companies can own up to 100 percent of an AFP) in order to provide competition and thus benefit workers. Those companies can engage in no other activities and are subject to strict supervision by a government entity, the Superintendency of AFP that was created to provide highly technical oversight to prevent theft or fraud.

3) Each AFP operates five mutual funds, with different bond/share proportions (the original scheme allowed only one fund for each AFP). Older workers have to own mutual funds highly invested in fixed income securities, while young workers can have up to 80 percent of their funds in shares. Investment decisions are made by the AFP, but the worker can choose both the AFP and, within limits, the preferred fund. The law sets only maximum percentage limits both for specific types of instruments and for the overall mix of the portfolio; and the spirit of the reform is that those regulations should be reduced progressively as the AFP companies gain experience and capital markets work better. There is no obligation whatsoever to invest in government bonds or any other security. Legally, the AFP companies and the mutual funds are separate entities. Thus, should an AFP go under, the assets of the mutual funds-that is, the workers' investments-are not affected at all and only the AFP's shareholders lose their capital.

4) Workers are free to change from one AFP company to another, and from one fund to another. There is then competition among the companies to provide a higher return on investment, better customer service, or a lower commission. Each worker is given a PRA passbook (to use if he wants to update his balance by visiting his AFP) and receives a statement by mail every three months informing

him of how much money has been accumulated in his retirement account and how well his investment fund has performed. The account bears the worker's name, is his property, and will be used to pay his old-age retirement benefit (with a provision for survivors' benefits).

5) Individual preferences about old age differ as much as any other preferences. Some people want to work forever; others cannot wait to cease working and indulge in their true vocations or hobbies. The pay-as-you-go system does not permit the satisfaction of such preferences, except through collective pressure to have, for example, an early retirement age for powerful political constituencies. It is a one-size-fits-all scheme that may exact a high price in human happiness.

The PRA system, on the other hand, allows individual preferences to be translated into individual decisions that will produce the desired outcome. In the branch offices of many AFPs, there are user-friendly computer terminals on which a worker can calculate the expected value of his future retirement benefit, based on the money in his account, the life expectancy of his age group, and the year in which he wishes to retire. Alternatively, the worker can specify the retirement benefit he wishes to receive and determine how much extra money he must deposit each month if he wants to retire at a given age. Once he gets the answer, he simply asks his employer to withdraw that new percentage from his salary. Of course, he can adjust that figure as time goes on, depending on the actual yield of his pension fund or other relevant variables (for example, longer life expectancies).

6) All workers, whether employed by private companies or by the government, were given the opportunity to opt out of the pay-as-you-go system. Self-employed workers are not compelled to participate in the PRA system, as they were not in the

government pay-as-you-go system, because of the practical difficulties in a country like Chile of enforcing any mandatory system for self-employed people. But the pension reform allows them to enter the PRA system if they wish, thus creating an incentive for informal workers to join the formal economy.

7) The social security reform system maintained a "safety net." A worker who has contributed for at least 20 years but whose benefit, upon reaching retirement age, is below what the law defines as a "minimum pension" is entitled to receive that benefit level from general government revenue sources once his PRA has been depleted. (Those without 20 years of contributions can apply for a welfare-type retirement benefit at a lower level.)

8) The government-run disability and survivors' program, a source of systematic abuse, given the non-existence of incentives to control its fair use, was also fully privatized. Each AFP has to provide this service to its affiliated workers by taking out, through open and transparent bidding, group life and disability coverage from private life insurance companies. This coverage is paid for by an additional worker contribution of around 2 percent of salary, which includes the commission to the AFP for administrative and investing expenses.

9) A key feature of the reform was the change in the meaning of "retirement." The legal retirement age is 65 for men and 60 for women (those were the ages in the former pay-as-you-go system and were not discussed or changed during the reform process because they are not a structural characteristic of the PRA system). But in the PRA system, workers with sufficient savings in their accounts to buy a "reasonable annuity" (defined as 50 percent of the average salary of the previous 10 years, as long as it is higher than the "minimum pension") can cease working,

begin withdrawing their money, and stop contributing to their accounts. Of course, workers can continue working after beginning to retire their money. A worker must reach the legal retirement age to be eligible for the government subsidy that guarantees the minimum pension. But in no way is there an obligation to cease working, at any age, nor is there an obligation to continue working or saving for retirement benefit purposes once you have assured yourself a "reasonable" benefit as described above.

10) Upon retiring, a worker may choose from three general payout options. In the first case, a retiree may use the capital in his PRA to purchase an annuity from any private life insurance company. The annuity must guarantee a constant monthly income for life, indexed to inflation (there are indexed bonds available in the Chilean capital market so that companies can invest accordingly), plus survivors' benefits for the worker's dependents (wife and orphans under the age of 21). Second, a retiree may leave his funds in the PRA and make programmed withdrawals, subject to limits based on the life expectancy of the retiree and his dependents; with this option, if he dies, the remaining funds in his account form a part of his estate and can be given to his heirs basically tax-free. In both cases, he can withdraw as a lump sum the capital in excess of that needed to obtain an annuity or programmed withdrawal equal to 70 percent of his last wages. And third, he can choose any mix he wishes of the previous two.

The financing of the transition is a complex technical issue that would have to be addressed in Jamaica successfully without raising taxes and that the country must resolve according to its own circumstances. The key insight in this regard is that, contrary to the widely held belief, there is no "economic" transition cost, because there is no cost to GDP due to this reform (on the contrary). A completely

different, and relevant, issue is how to confront the "cash-flow" transition cost to the government of recognizing, and ultimately eliminating, the unfunded liability created by the pay-as-you-go-system.

Legislators in both the Lower House and The Senate need to consider these issues clearly, if the final result is growth and sustained economic development.

Grange, Henry and Chuck, Top Performers

In having a second look at the October 2002 General Elections results, Olivia 'Babsy' Grange, Mike Henry and Delroy Chuck came out on top when one compared the figures to the 1997 results, in that they increased their votes by 23.7%, 21.7% and 18% respectively. Kudos to them, the councillors and hard working party workers in **St Catherine Central, Clarendon Central and St. Andrew North East.**

ST CATHERINE CENTRAL (27,216)

Candidate	Party	Votes	%
Olivia GRANGE *	JLP	8,096	74.9 (+23.7)
Pepon Ruddock		153	01.4
Homer Whyte	PNP	2,553	23.6 (-04.0)
Total		10,802	

CLARENDON CENTRAL (20,890)

Candidate	Party	Votes	%
Mike HENRY +	JLP	5,474	65.0 (+21.7)
Leopold Hylton	PNP	2,945	35.0 (+06.6)
Total		8,419	

ST ANDREW NORTH EAST (16,242)

Candidate	Party	Votes	%
Raoul Alder		53	00.6
Delroy CHUCK *	JLP	5,952	67.9 (+18.0)
Leonard Grean	PNP	2,760	31.5 (-03.3)
Total		8,765	

The Story of Debt Management In Jamaica

In Jamaica over the last 3 years there has been much debate over Government's debt management practices. A recent IMF/World Bank Report examines these issues, How does Jamaica measure up to these?

Firstly,. Sovereign debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.

In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances while meeting cost and risk objectives. Sovereign debt managers share fiscal and monetary policy advisors' concerns that public sector indebtedness remains on a sustainable path and that a credible strategy is in place to reduce excessive levels of debt. Debt managers should ensure that the fiscal authorities are aware of the impact of government financing requirements and debt levels on borrowing costs. Examples of indicators that address the issue of debt sustainability include the **public sector debt service ratio**, and **ratios of public debt to GDP and to tax revenue**.

Poorly structured debt in terms of maturity, currency, or interest rate composition and large and unfunded contingent liabilities have been important factors in inducing or propagating economic crises in many countries throughout history. For example, irrespective of the exchange rate regime, or whether domestic or foreign

currency debt is involved, crises have often arisen because of an excessive focus by governments on possible cost savings associated with large volumes of short-term or floating rate debt. This has left government budgets seriously exposed to changing financial market conditions, including changes in the country's creditworthiness, when this debt has to be rolled over. Foreign currency debt also poses particular risks, and excessive reliance on foreign currency debt can lead to exchange rate and/or monetary pressures if investors become reluctant to refinance the government's foreign currency debt. By reducing the risk that the government's own portfolio management will become a source of instability for the private sector, prudent government debt management, along with sound policies for managing contingent liabilities, can make countries less susceptible to contagion and financial risk.

A government's debt portfolio is usually the largest financial portfolio in the country.

It often contains complex and risky financial structures, and can generate substantial risk to the government's balance sheet and to the country's financial stability. As noted by the Financial Stability Forum's Working Group on Capital Flows, "recent experience has highlighted the need for governments to limit the build up of liquidity exposures and other risks that make their economies especially vulnerable to external shocks. Therefore, sound risk management by the public sector is also essential for risk management by other sectors of the economy "because individual entities within the private sector typically are faced with enormous problems when inadequate sovereign risk management generates vulnerability to a liquidity crisis." Sound debt structures help governments reduce their exposure to interest rate, currency and other risks. Many governments seek to support these structures by establishing, where feasible, portfolio benchmarks

related to the desired currency composition, duration, and maturity structure of the debt to guide the future composition of the portfolio.

Several debt market crises have highlighted the importance of sound debt management practices and the need for an efficient and sound capital market. Although government debt management policies may not have been the sole or even the main cause of these crises, the maturity structure, and interest rate and currency composition of the government's debt portfolio, together with substantial obligations in respect of contingent liabilities have often contributed to the severity of the crisis. Even in situations where there are sound macroeconomic policy settings, risky debt management practices increase the vulnerability of the economy to economic and financial shocks. Sometimes these risks can be readily addressed by relatively straightforward measures, such as by lengthening the maturities of borrowings and paying the associated higher debt servicing costs by adjusting the amount, maturity, and composition of foreign exchange reserves, and by reviewing criteria and governance arrangements in respect of contingent liabilities.

Risky debt structures are often the consequence of inappropriate economic policies—fiscal, monetary and exchange rate—but the feedback effects undoubtedly go in both directions.

However, there are limits to what sound debt management policies can deliver.

Sound debt management policies are no panacea or substitute for sound fiscal and monetary management. If macroeconomic policy settings are poor, sound sovereign debt management may not by itself prevent any crisis. Sound debt management policies reduce susceptibility to contagion and financial risk by playing a catalytic role for broader financial market development and financial deepening. Experience supports the argument, for example, that developed

domestic debt markets can substitute for bank financing (and vice versa) when this source dries up, helping economies to weather financial shocks.

TRANSITION FROM HARD CORE POLICING TO COMMUNITY POLICY.

The Jamaica Constabulary Force was founded following the 1865 Morant Bay Rebellion, with an establishment of nine hundred and eighty four (984) members under the management of an Inspector General appointed by the British Government. The first reorganization of this body was in 1948 under the direction of Mr. W. A. Calver of the London Metropolitan Police who, prior to this was asked to conduct an evaluation of the Force. His accepting the job of reorganizing the Force along the lines of his recommendations and thereafter to manage it as its Commissioner resulted in many changes among which were, the employment of women as police, the setting up of a Traffic Branch, and the introduction of a formal training program.

Following Independence, the regulations governing recruitments were changed and, today only Jamaican citizens can serve in the Force. However in many respects the structure of The Jamaica Constabulary Force remains unchanged; retaining its **semi-military character**, with its system of gazetted and non-gazetted ranks.

It is difficult for police to convert their long-standing practice of delivering traditional law enforcement to the often ambiguous and ill-defined philosophy of community policing. Many police employees cannot clearly articulate community policing or the implication to their department. The same difficulty arises when the officer attempts to apply community policing to their individual roles and responsibilities. Without a clear definition or specified model, police organizations

often mimic community-policing programs used by others. This may include bike patrols, the assignment of neighbourhood officers, special programs, and a host of other activities that enhance the department's visibility. The extent of community policing practice varies considerably and no single standard illustrates superiority and signifies excellence. Resolving job performance issues, while determining acceptable behaviour under community policing and conceptualising how it all coincides with the public's demand for service, is perhaps the most resistant of factors to overcome.

When the decision to implement community policing is made, the department's chief should insure that planned change is well thought out, carefully constructed, and includes substantial employee input and discussion. Changing an individual's belief in something influences organizational behavior. A person's beliefs are a combination of his or her values, knowledge, and expertise. This means that individuals see the world through their belief systems and take action according to these views. Learning takes place and change can occur when people review the consequences of their actions and learn from these experiences. Thus, if an individual believes that community policing is of value to him or her, the organization, and the community, change will occur. In support of this philosophy, Kurt Lewin's twelve principles of adult learning and adaptation to one's environment aid the change process. Seven of these principles have direct application to organizational change, in this instance the move from traditional to community oriented policing or community problem solving policing.

PRINCIPLE 1:

Effective learning will influence the learner's cognitive (thinking) structures, attitudes, feelings, values, perceptions, and behavioral patterns.

Changing how officers provide service includes changing their thinking, feelings, and performance, blending new methods into existing measures of practice. This includes providing staff with full information, including them in change planning, insuring they understand the necessity for change, and providing each individual with future performance expectations.

PRINCIPLE 2:

People will believe more in knowledge they have discovered themselves than in knowledge presented by others.

Assigning individuals the task of determining how other agencies function under a community-policing model, the effects of change on the organization, their successes and failures, etc., leads to a greater comfort level. After determining relevant facts, the individual applies this information to his or her agency and weighs out the benefits and drawbacks involved. Following this assessment, the individual will be able to judge the value of community policing to their respective agency. Hopefully it will be positive and relevant facts will be shared with others in the organization.

PRINCIPLE 3:

Learning is more effective when it is an active rather than a passive process.

When a person can determine the value of a practice, theory, or concept they understand it more thoroughly. Understanding relates to past knowledge and past learning, which when combined, the longevity of retention and application is extended. Another way of saying this is, until applied and used in one's daily work, most concepts, practice, and theory is not completely understood. Determining ways in which staff can "use" and apply new ideas and practices stands a stronger

chance of regular use, even becoming acculturated into the daily life of the individual. Training in community policing (COP) and community problem oriented policing (CPOP) must include real application and experience if we expect it to become habit.

PRINCIPLE 4:

Acceptance of new ideas, attitudes, and behavioral patterns cannot be brought about by a piecemeal approach. One's whole cognitive, affective, and behavioral system has to change.

Interconnected, all three elements act as a whole rather than separate parts. When trying to bring about individual change, training and education must simultaneously address the learner's feelings, behaviors, and thinking, as each is related to the other. Consistency, clarity of the message, and intent are woven together to provide the individual with all necessary information. This allows the person to rationalize their choice, find commonality and benefit from change, and the ability to determine how it will improve and support current modes of practice and service delivery. COP/CPOP dribbled out over a period of months never takes shape, leaving individuals to practice what they know best, which brings a false sense of comfort. With the decision to proceed, all aspects of change must be thoroughly planned and executed. Staff must have the benefit of complete knowledge and background before asking them to engage in personal and organizational change.

PRINCIPLE 5:

It takes more than information to change ideas, attitudes and behavioral patterns.

Merely telling staff that COP/CPOP will become the department's way of conducting business assures failure. It goes beyond providing a rationale for change or providing reading material. The majority of employees will attempt to assimilate what change means to their job, evaluation, assignments and other components that impact on the delivery of police service. Examples of how COP/CPOP will reduce crime and allow officers to spend their time more wisely, points out the benefits and obstacles that will be encountered and resolved. Once provided with sufficient information to understand the new concept, officers should reflect, discuss, and report the benefits of making a change. Plans for accomplishing the adoption and practice of COP/CPOP must include a broad section of the department, as those who are engaged in the planning and decision-making become stakeholders, thus increasing the likelihood of success.

PRINCIPLE 6:

Behavior changes will be temporary unless the ideas and attitudes underlying them are changed.

Telling employees that the department has adopted either the COP or CPOP philosophy and that all personnel will begin to use these practices, has little to no effect when it applies to enthusiasm and long-term adoption of the concepts. It is necessary to change individual attitudes and ideas, instill practice with belief and encourage a willingness to participate and follow the new way of conducting business. Longevity depends on not only organizational commitment and support; it is also about each individual's willingness to make the transition to conducting business and delivering services using the COP/CPOP model.

PRINCIPLE 7:

Changes in perception of oneself and one's social environment are necessary before changes in ideas, attitudes, and behavior will take place.

Staff must believe they are capable of behavior that is appropriate to situations in which they find themselves. One's self-perception serves as a guide to your personal beliefs and resulting behavior in the work environment. Traditional law enforcement is comfortable to the experienced officer and switching to a new program, something as ambiguous as COP/CPOP, often meets with resistance. Convincing officers of the benefits of COP/CPOP is a hard sell, but when successful, the rewards are outstanding.

CONCLUSION

Changing individual behavior and organizational tradition is a difficult and sometimes impossible task. With the decision to implement change, steps must be taken to ease the process and reduce the extent of employee anxiety. Employees should participate in change planning, contribute ideas and suggestions, and explore the implication of change on the tasks they perform as part of their job. The urgency to implement a new idea often overshadows taking sufficient time to include employees in the process.

Today's police officer is often torn between the old style of traditional law enforcement and the newer community-policing model. If employees were allowed to participate in the planning process and provide feedback from the beginning, implementation of community policing would be easier to achieve. Challenges in implementing COP lie ahead, but we will be better prepared to address them if we but pause for a moment and organize how we will address future change initiatives. To do less is to invite failure.

VIOLENCE & HEALTH

“Nearly half of the violent deaths recorded in 2002 were suicides. Less than one-third were homicides and only one-fifth were directly linked to wars. This is quite different from the picture we get from the media, where the focus is on organized forms of violence,”

Etienne Krug, director of the violence and injury prevention program at the World Health Organization (WHO).

Violence has become one of the leading causes of death and a growing health problem in the Americas and other regions of the world.

According to recent research out of The Pan-American Health Organization (PAHO), Violence, now claims the lives of more than **a million people every year around the globe.**

Globally, nearly 4,400 people died every day because of violence in 2002. Moreover, this rate of violence appears to be increasing in many places where it is high.

The research makes it clear that the panorama of global health presented is at odds with some commonly held assumptions. **Nearly half of the violent deaths recorded in 2002 were suicides.** Less than one-third were homicides and only one-fifth were directly linked to wars.

"This is quite different from the picture we get from the media, where the focus is on organized forms of violence," says Etienne Krug, director of the violence and injury prevention program at the World Health Organization (WHO).

The research mentioned shows that patterns of violence vary across regions and countries. The vast majority of violent deaths take place in low- to middle-income countries, with rates per 100,000 double those of high-income countries.

In most of World Health Organization's regions around the world, suicides outnumber homicides -- in Europe, for example, by more than 2 to 1 and in the Western Pacific by as much as 7 to 1. By contrast, in both Africa and the Americas there are nearly three homicides for every suicide.

There are multiple public health responses. Among the most successful ones are the efforts to promote anger management, such as pre-school enrichment programs that teach young children that violence is not the only response to stress. It also includes programs that work with children who are victims of family violence and try to help prevent those children from becoming adults who themselves perpetrate violence.

The report makes nine recommendations for effective action to reduce violence:

- Develop, implement and monitor national action plans for violence prevention.
- Improve data collection on violence.
- Support research on the causes, impact and prevention of violence.
- Promote primary prevention responses.
- Strengthen responses for victims of violence.

- Integrate prevention into social and educational policies; promote gender and social equality.
- Increase collaboration and information exchange on violence prevention.
- Promote and monitor compliance with international human rights laws and treaties.
- Seek international responses to the global arms and drug trades.

PUBLIC SECTOR ENTITIES AND SUSTAINABLE DEVELOPMENT

Jamaica has experienced a deteriorating economic environment and performance in the 1990s, resulting in a negligible change in GDP over the course of the decade and five years of per capita GDP decline from 1996 to 2000. Among factors obstructing growth were high domestic interest rates, which were linked to persistent budget deficits, and a spiral of domestic debt accumulation. Public debt now represents about 143% of GDP.

We face many development challenges in Jamaica, but it is no good tackling them piecemeal. Each of them affects all the others. We need to tackle them all together, with a common strategy, a clear timetable, and measurable targets.

I note with serious concern for sometime now the policy of government owned entities to invest their revenue surpluses in Government Securities (Government Paper, Repos and other similar financial instruments) and other market securities, rather than in the people of Jamaica for development. These surpluses range from a low of 30 billion dollars to high of approximately 100 billion dollars. This policy concerns me for the following reasons:

1) Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life, and allows organized crime, terrorism and other threats to human security to flourish.

This evil phenomenon is found in all countries — big and small, rich and poor — but it is in the developing world that its effects are most destructive. Corruption hurts the poor disproportionately — by diverting funds intended for development, undermining a government's ability to provide basic services, feeding inequality

and injustice, and discouraging foreign aid and investment. Corruption is a key element in economic underperformance, and a major obstacle to poverty alleviation and development.

2) Jamaica, based on the last Corruption Perception Index (CPI) from Transparency International, has a score of 4, which is less than acceptable.

3) This attempt by government policy makers to play **STOCK BROKER** has it serious downsides for example, even well intentioned policymakers are not qualified to invest funds and manage money. Simply stated, they do not face the bottom-line pressures that force private businesses and investors to allocate resources wisely. Such approaches pose very far-reaching potential dangers for the Jamaican economy.

Under a system of government-controlled investing, the government would be able to purchase a significant percentage of publicly traded companies. Once it is a dominant shareholder, the government could use its power to insist, for example, that companies place politicians on their boards of directors. Even if they were not placed in positions of direct power, they could use their voting power to impose control. And when politicians control business decisions, political incentives become more important than economic ones. Invariably, this leads to less prosperity.

Consider the experience of other countries. Much of Western Europe suffers from stagnation and high rates of unemployment. High tax rates and excessive welfare benefits certainly deserve part of the blame, but the widespread direct and indirect control of business has had severe consequences. Countries in the former Soviet Bloc suffered decades of deprivation and poverty under a system that allowed politicians, rather than the marketplace, to allocate resources. Without the guidance of competitive prices and lacking proper incentives, the centralized planning

created an economic catastrophe from which these countries will need years to recover.

4) The managers of private pension funds have the legal obligation to make investments that are in the best interest of workers. In other words, they must try to get the highest possible return, adjusted for risk. Would such a standard apply under a system of government-controlled investing, and could it even be enforced? This is a significant concern because legislators sometimes believe that the marketplace is not producing the right results; they try to help or punish certain industries or companies through spending programs, tax breaks, and regulatory exemptions. They also can do this by providing special access to capital, another risk that would arise if politicians controlled how retirement funds were invested. The recent downturn in Asia illustrates the danger of this approach. Decades of industrial policy, or crony capitalism, left these countries with debt-laden banking systems, inefficient industries, and companies that cannot compete. Unlike the Europeans, the Asians largely avoided direct government ownership, but widespread political manipulation of lending decisions and investment choices produced the same result.

Politicians frequently use the levers of power to counteract markets by steering resources in certain directions. These same levers of power could be used for more narrow political purposes as politicians provide favors or steer resources to constituents and allies. A large pot of government-controlled money, creates the opportunity to divert money for special interests. This is what has happened in many countries in the developing world. Would Jamaica be any different?

6) When operating private pre-funded systems, fund managers pick well-balanced portfolios designed to maximize long-term returns. This is a legal requirement largely because it is the best way to ensure that workers will have a comfortable and secure retirement. Fund managers may or may not approve of the goods and

services produced by the companies in which they invest, but their fiduciary responsibility is clear: They must invest with the workers' interests in mind. Unfortunately, it is not clear that managers in a system of government-controlled investment would have the same incentives. Politicians routinely go after certain industries and/or companies, and withdrawing investment funds would be one way to show their displeasure. Conversely, some causes are politically popular. Allocating investments to these ventures, even if they are expected to lose money, could be advantageous for politicians.

Although advocates of the present Government Companies investing policy may argue that the concerns outlined above are overstated, arguments against political control are supported by historical evidence. For example, pension funds for state and local government employees in the United States frequently are subjected to political manipulation. Moreover, other countries that set up social security systems using government-controlled investment have had lackluster or even negative results.

Finally, think about the following:

Suppose we used 3 billion dollars of these surpluses to set up a YOUTH DEVELOPMENT FUND for youth in Jamaica, what impact would this have? We have a persistent crime problem in Jamaica, suppose we were to invest 5 billion dollars in the needy communities of Mountainview, Canterbury, Flankers and the needy communities of Spanish Town (Ellerslie Pen, Tawes Pen, and others) what impact would this have on Jamaica?

I provoke your serious comments on these important Development issues.

Remember it is not about you or me it is all about JAMAICA.

Fiscal Policy Under Accrual Budgeting

...The government intends to advance reforms in the public expenditure management system over the medium term. The plan for the current year is to extend modernization measures implemented in the pilot ministries to the rest of the central government. These measures aim at establishing output-based budgeting, and linking salary increases to performance by the end of this fiscal year, and moving toward **accrual accounting** over a three-year period. In addition, the authorities plan further to strengthen the cash management system.

Jamaica: 2004 Article IV Consultation

Overview

The Government of Jamaica is in the process of a phased shift from cash to full accrual budgeting. Historically cash accounting, with its embodiment in domestic legislation and international guidelines, has underpinned the production of public accounts. In recent times, however, the Government has given greater attention to developing more business-like reporting within the public sector. These changes do not affect the Government's fiscal objectives or strategy, but they do require some changes in measurement and terminology.

The move from cash to accrual budgeting is an important step in the Government's reform program to develop more business-like reporting for the public sector that accounts for the full cost of service delivery and incorporates a 'whole of government' approach.

The fundamental distinction between the two forms of accounting centers on timing – cash accounting records the transaction when cash is exchanged, whereas accrual indicators record a financial flow at the time economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at the time.

In practice, this means that non-cash items such as accruing superannuation liabilities and depreciation will now be regularly incorporated in the production of public accounts.

The transition to an accrual accounting framework does not change the objectives of fiscal policy. It will, however, be necessary to express the fiscal strategy and associated targets in accrual budgeting terms. The Government is pursuing a medium-term fiscal objective of achieving underlying cash balance on average over the economic cycle. Following the introduction of accrual accounting, the Government will aim to achieve fiscal balance — the accrual counterpart of the underlying cash balance — on average over the economic cycle. The fiscal balance, like the underlying cash balance, measures the Government's contribution to net lending (the national investment-saving imbalance) and hence to the external current account balance. The fiscal balance is an aggregate in the Government Finance Statistics (GFS) operating statement. It can also be derived from an accounting standard operating result by making two adjustments for economic revaluations and capital.

The main advantage of accrual measures (as opposed to cash) is that they provide a more comprehensive indication of the total activity of Government and the long-term effects of current policy. Cash measures do, however, have some advantages for tracking expenditures in a fiscal year and helping to identify the short-term effect of fiscal policy on the economy. Consequently, cash indicators for the headline and the underlying balance will continue to be produced.

The move to accrual budgeting will result in several presentational changes. First, budget reporting will adopt a consolidated framework by shifting from budget sector to general government reporting. Second, as part of the Budget process, consistent with both accounting and Government Finance Statistic and the

International Monetary Fund (IMF) requirements, the Government will produce a complete set of accrual statements, including:

- an operating statement;
- a statement of assets and liabilities; and
- a statement of cash flows.

Thirdly, to promote greater efficiency in the management of its assets, the Government will produce a capital budget statement that will account for all capital expenditure and funding.

Taken together, this series of reforms should contribute towards more transparent and informative public accounts and greater efficiency in the management of public resources.

While the fiscal balance is the accrual counterpart of the underlying cash balance, there will be differences as to when transactions are recorded on an accrual and a cash basis, with the result that the fiscal balance may differ from the underlying cash balance in a given period. Some company tax liabilities will be brought forward with the pay-as-you-go (PAYG) arrangements but certain tax installments (cash payments) will be deferred and paid in latter years. The bringing forward of tax liabilities will be reflected in accrual revenues, but they will not be recorded in cash revenues until the tax installments are paid. These timing differences will result in a sizeable divergence between the fiscal balance and underlying cash balance.

While unrelated to the movement to an accrual budget, another important change in the Budget is the treatment of Public Trading Enterprises (PTEs) superannuation liabilities. The Government still makes superannuation payments to current and

former employees of PTEs who were once employees within the general government sector. These payments, have previously been treated as financing transactions and have therefore had no impact on the budget cash balances. However, consistent with changes to the National Accounts in line with international statistical standards, onwards, these payments will be effectively treated as budget outlays with the result that they will be recorded in (reduce) the underlying and headline cash balances.

Major differences between cash accounting and accrual accounting

Timing of transactions

Under a cash system, transactions are recorded in the reporting period in which cash changes hands. An accrual system records transactions in the period in which income is earned or expenses incurred, subject to the important caveat that the transactions are able to be reliably measured at that time. Effectively, assets, liabilities, revenues and expenses arising from transactions or other events must be recognised in the financial statements when they have an economic impact on the government, regardless of when the associated cash flows occur.

When applied to the Government, accrual reporting will cover some significant financial items that are not included in cash-based statistics because they do not have an associated cash flow. The major differences between cash budgeting and the accrual framework are outlined below.

Superannuation

Accrual budgeting will record the accruing superannuation expense whether the liability is funded or unfunded. The superannuation expense in the operating statement, in a given year, is equal to the superannuation accruing to current

employees as well as the interest or growth on the outstanding liability. In calculating changes in the stock of unfunded superannuation liabilities, the actuary takes into account the number of salary earners and assumptions relating to wages growth, inflation and the expected rate of return on investment.

Under cash accounting, PDI is recorded as the interest paid during the year. Under an accrual approach, allowance is also made for interest accrued, but not actually paid, during the period.

A further difference between cash and accrual accounting for PDI concerns the treatment of premia and discounts when debt is issued or when it is repurchased.

Taxation revenue

The preparation of accrual estimates requires a conceptually consistent and reliable method of recognising when taxation revenue accrues to the Government.

The Government could record an accrual of revenue at the time that economic transactions, resulting in a taxation liability, took place. It is very difficult, however, to know when all such transactions take place. As a result, at this stage revenue will be recognised as accruing at the time the relevant tax law indicates the existence of a requirement to pay an amount in tax or when a tax liability assessment is raised. That is, revenue is only recognised when the taxpayer makes a self-assessment or the Tax authorities issues an assessment.

In effect only two changes to current cash estimates are required. These are adjustments for receivables, and for bad and doubtful debts.

1. The adjustment for receivables recognises revenue for which an assessment has been issued but which has not yet been received and excludes cash received which has already been accounted for in receivables (because it accrued in a previous reporting period).

2. The adjustment for bad and doubtful debts allows for the fact that some accounts receivable are never paid and are eventually written off. At the end of each financial year tax receivables that are likely to become uncollectable are brought to account and expensed to the year just finishing. In this way expenses are matched to the period in which they were incurred.

Capital

Accrual accounting records capital use (depreciation) in the operating statement, whereas cash accounting records capital expenditure. However, the Government's primary fiscal target — fiscal balance — will continue to record capital expenditure instead of depreciation. This treatment is necessary because the fiscal balance is intended to measure net lending, or the difference between saving and investment expenditure. Therefore the fiscal balance detects the cash 'investment' in a given year, not the capital used. The cash flow statement will outline most capital expenditure in purchase of property, plant and equipment, and intangibles while total capital expenditure will be published in the Government's capital budget statement.

Politicians (Members Of Parliament and Senators) the 81 members of the House will have to be put through extensive and intensive seminars to facilitate continued effective representation to the people with regards to these budget changes and the new interpretations required.

Agricultural Credit Card Revolution

Senator Norman Grant and his team at The Jamaica Agricultural Society have been busy publicizing Build Jamaica Buy Jamaica Campaign; and justifiable so, for if someone did not revitalize this thinking from a previous time we could have found ourselves in the medium to long term importing all food stuffs and being totally dependent on foreign food imports to the demise of our local farmers who have been disenchanted by mixed messages coming out of agricultural polices. But Senator Norman Grant needs to take a bolder step and ensure stability and revolutionize agricultural funding support in order to make our small farmers globally competitive.

Credit cards are popular in industrialized countries and becoming more commonly used by the urban middle and upper classes of developing countries. In the rural areas of developing countries, however, they are less common due to the greater seasonality in income flows and the higher rates of poverty. In Latin America there has been introduced a rural credit card, targeting agricultural input suppliers and farmers. The promise of this product is that it can dramatically reduce transaction costs for clients and merchants accepting the card.

The principal findings are that the credit card is a viable and profitable product; that a culture of innovation is critical to sustain and refine the product; and that infrastructural and legal obstacles present in the country require creative solutions.

This credit card product that has been pioneered in Latin America for rural farmers could be established in Jamaica if certain conditions hold; namely:

- (1) A density of rural clients with variable but predictable cash flows,
- (2) A minimum level of functioning physical infrastructure
(telecommunications,
electricity, postal services, and roads),
- (3) An appropriate legal and financial regulatory infrastructure that permits profitable intermediation,
- (4) A profit-oriented, client-driven service provider with a history of active participation in the rural sector.

If we are serious about empowering farmers to be globally competitive in Jamaica, then a serious look at the Agricultural Credit Card Revolution is a must.

A CARICOM BOND FUND

There has been much talk about a strong CARICOM to build for the future but as most CARICOM leaders with the exception of Prime Minister Roosevelt Skerrit of Dominica, seem to be lost somewhere in the post modernist period and are only capable of excessive linear political thinking to satisfy their bruised regional egos, I find they are not learning from the global ethos of regional successes elsewhere where leaders have already mastered and managed the challenges of adversarial regional politics across cultural barriers and language barriers.

It is within this context I think the CARICOM should look at the establishment of a CARICOM BOND FUND.

The establishment of a CARICOM Bond Fund by Caribbean central banks, would ultimately aim to:

- (1) Bring back Caribbean reserves that traditionally saved in Europe or in the U.S. to be used in bond investment in the Caribbean and the fund itself will act as a channel of finance intermediation that turns savings into investment, and to
- (2) Provide a catalyst, as a lead investor, for private investors to consider investment in Caribbean issues. With the starting capital of US \$200, the fund initially will invest in sovereign and quasi-sovereign bonds issued by Caribbean governments in the international markets. In the next step, the Caribbean Bond Fund will extend the investment into the various local bond

markets in local currencies. It is hoped that in the medium and long run, the Caribbean Bond Fund would encourage and attract other investors including private money in the Caribbean and Latin America such as insurance companies, mutual funds or pension funds to participate in the market. The investment in the bond market of the Caribbean Bond Fund and Caribbean investors will lead to greater liquidity, increased issuance, better lending terms for governments and corporations and, finally, the stability of the Caribbean financial market.

Large Complex Financial Institutions: Challenges For Public Policy.

Recently in Jamaica there have been mergers of financial institutions into what is referred to internationally as Large Complex Financial Institutions (LCFI) engaged in banking, insurance and securities across jurisdictions. What challenges for public policy and regulations does this occurrence present?

The LCFI differs from the individual financial intermediaries, in that their balance sheet, operations and internal controls are generally more complex and less transparent. This makes external assessment and analysis more difficult. Secondly the LCFI is usually large relative to the financial system. These two aspects, complexity and size give rise to a number of specific challenges associated with LCFI's.

Regulatory And Supervisory Challenges

The key supervisory challenge is to ensure that all LCFI operations relevant for assessing group-wide risk are covered, taking due account of the interactions among various risks, business areas and regions. The additional regulatory and supervisory challenges posed by LCFI's include:

- 1) The systemic risk potential owing to their major role in payment and settlement systems.
- 2) The complexity of their balance sheet and organizational structures, which, makes liquidity problems harder to distinguish from solvency problems, hampering early detection of insolvency.
- 3) Their functional and geographical diversification makes the assignment of crisis management responsibilities and eventual workouts or winding ups more difficult.

Moral Hazard

- 1) The moral hazard problem for LCFI's is that they or their counterparts may not take all risk-reducing measures that are warranted because they can benefit from a bailout from the authorities if they become distressed.
- 2) Another source of moral hazard is the asymmetric information situation between the authorities and LCFI's, which clearly have superior information about their overall operations and risk-taking level.

Contagion

Three types of significant contagion risks stem from the operation of LCFI's.

- 1) The first concerns the intra-group contagion effects from one business area to another within a single LCFI.
- 2) The second contagion risk relates to the interbank contagion effects from one institution to another through inter-bank markets in a single country.
- 3) The third contagion risk refers to cross-country contagion between the various national financial systems where LCFI's operate and are systemically important. Such contagion could occur within the LCFI or across financial institutions.

Appropriate policy responses are crucial for addressing the challenges since weaknesses in corporate governance and market failures can render market discipline inadequate. The appropriate policy response involves devising regulatory, supervisory, and crisis management arrangements that could help address or at least mitigate risks.

CITIZEN AUDITORS: TAXPAYERS SHOULD TAKE RESPONSIBILITY FOR OVERSEEING HOW THEIR MUNICIPALITIES SPEND MONEY.

Not long ago, residents in a neighborhood in Bogotá, Colombia, were pleased to see crews arrive to pave their streets. But their pleasure turned to alarm when they discovered that the construction company had decided to cut costs by using a layer of sand under the asphalt, which would have resulted in a much less durable surface. The residents immediately contacted the Veeduría Distrital, an advisory agency of the city that handles the citizen's participation in municipal affairs, which in turn reported the incident to the city's Urban Development Institute. The institute contacted the construction company and told them: either stick to the original plans, or you will be taken to court.

How did the neighbors know what type of material was supposed to be used for the filling? What made them think that their report would be effective?

Participation and control

The 1991 Colombian Constitution opened enormous possibilities for the involvement of civil society in public life. Our Local Government Reform Programme is moving in that direction but the progress is slow. As a result, the Veeduría Nacional and several Veedurías Distritales were established.

Veeduría Distrital has a twofold purpose: 1) to oversee that the cities' procedures are effective 2) to organize the citizens in their new task as monitors.

The immediate objective is to mobilize this army of monitors. The Veeduría is promoting its own visibility and organizing meetings throughout the districts to help train citizens. Anyone can join as a volunteer as long as he or she shows the commitment to participate and participates in the training.

The agency plans to open information centers at strategic locations with easy access where people who volunteer to participate in this program can go to join, be trained and get information about the projects that could affect their neighborhoods.

Transparency

Any citizen can find out if a public institution in his district or elsewhere overspent for articles or services, from the most important and expensive to the most trivial or inexpensive: stationery, computers, printers, vehicles, hospital equipment, pencils, almost anything. It is also possible to compare those prices with what other institutions paid for identical articles and services, or with the list of “recommended prices” that the Veeduría provides as a result of its own market research.

All this information is available in the Bulletins of Prices for the District, which are published and distributed periodically by the Veeduría, and in Bogotá Transparente, a magazine of the same agency. These publications have had enormous success and have forced the local agencies to carefully examine their practices. The Veeduría also publishes bulletins with detailed accounts of the annual budget as well as regular updates on current expenses.

Corruption Prevention

The city helps to prevent corruption by signing transparency agreements with construction companies, auditors and evaluation committees to prevent and deter bad practices. As for internal transparency, the Veeduría can undertake investigations against public officials. An agreement with the office of the Public Prosecutor and with the Department of Security Administration allows initiating judicial procedures,

Citizen's Meetings are another part of this strategy to promote transparency. They give opportunities for residents to discuss and help plan local development strategies for the following four years. The Municipality of Bogotá also holds a series of public hearings to report on the city's budget that are usually broadcast live by the local television stations.

Can we in Jamaica learn anything from this positive Colombian experience?

BULLETS, GUNS AND DESTRUCTION (BGD)

The Solutions to crime and violence in Jamaica is being looked at from the supply side: Bullets, Guns and Destruction (BGD). The solution to our crime problems worldwide is being solved from the demand side, People, Progress and Development (PPD).

The evaluation of policies, strategies, and action in the field of crime prevention and community safety, notably the evaluation of their effects, impacts, and cost-effectiveness, has been the subject of considerable interest for several years.

Government centers with responsibility for crime prevention and community safety - such as the Home Office in England, the National Crime Prevention Centre in Canada, or the Permanent Secretariat for Prevention Policy in Belgium – have included an important evaluation component in their strategies and initiatives.

Centers for research and policy analysis – the ICPC, the research division of the Home Office, the Australian Institute of Criminology, and the Department of Justice in the United States – have all produced syntheses of the results of evaluation studies on a range of prevention programs and strategies.

Most authors agree that, unlike fundamental research, evaluation research should be useful and should be used. It should be useful to policy decision-making, useful to program management, and useful to the practitioner on the site.

However, apart from pronouncements – “ what counts is what works” – calling for the implementation of policies and programs which have been shown to be practical and cost effective, the translation of evaluation research findings into program decisions is far from systematic. Who does not know of programs that continue to be funded despite the fact that they have been shown to be ineffective,

especially in the area of criminal justice? there are programs that have been shown to be effective and efficient and yet are still implemented only here and there and without assurance of ongoing funding, rather than being integrated into a comprehensive strategy.

Also, it is often difficult for politicians and managers to translate the results of evaluation studies into policies and integrated strategies. Often evaluations focus on isolated, time-limited projects, with little known about their context or potential for replication. This may in part explain why it is easier for decision-makers to support individual projects, on a pilot or experimental basis, rather than develop a systematic program with comprehensive measures.

In crime prevention, psychosocial interventions aimed at individuals, and situational interventions aimed at improving the security of public places, such as the use of closed circuit television, can find themselves side by side in government approaches without apparent explanatory links. As well, certain types of quantitative evaluations have more appeal by force of numbers than context evaluations that are sometimes more qualitative.

Perhaps, this is also the reason that actions targeting individual psychological factors appear on the government agenda more often than community-based social development actions; the former lend themselves more easily to quantitative, quasi-experimental evaluations than the latter which are much more difficult to evaluate. One could therefore say that the previous saying becomes – "what works is what counts or is countable..." Finally, the use of evaluation results to influence public policy is far from universal.

For methodological and even epistemological reasons sometimes, but also for theoretical and practical ones concerned with the very concepts of prevention and community safety, some observers remain skeptical. They are concerned about the

validity of evaluating isolated projects, which are time-limited, sometimes undertaken after the fact, and which attempt to isolate certain variables from their larger social contexts. More specifically, doubts have been raised about the capacity to construct a logical sequence of cause and effect. This skepticism also relates to the difficulty of transmitting the results of evaluation into practice, notably because quasi-experimental types of evaluation are perhaps less sensitive to the processes underlying the success or the failure of such and such a measure. At a time when it has become fashionable, as with private enterprises, to measure the efficiency (cost-effectiveness) of government action, evaluation has acquired much greater importance in general discussion if not in practice. But should evaluation primarily serve to determine the efficiency of government measures? To ask this question is also to ask about the final outcome of government policies. Are these measures governed by the same principles as those used by private enterprise? What is the role of societal values? What is the role of components that are difficult to assess, such as “the public good”? How do we include and assess these factors within a context of evaluation? And when we will have evaluations that are well done, what should be our expectations regarding their use by decision-makers and managers? In sum, why do we evaluate?

CRIME & VIOLENCE IN JAMAICA: A DEMAND SIDE APPROACH

“To be effective and win public support, strategies to fight crime and violence must focus on people and not statistical reports; on rebuilding community structures through which to deploy policies and programmes, and on rebuilding the moral authority of political leadership, which must take and pursue tough and sometimes unpopular decisions.”

I read with interest recently a booklet on Jamaica’s crime problem called:

A Global Approach To Crime & Violence In Jamaica (One of ten of the **Information Booklet Series** on topic areas in the social sciences), What was refreshing, it approached the possible solutions to the problem from a demand side rather than the present supply side. The supply side speaks to more arms for the security forces, motor vehicles, bullets, M16’s etc... The demand side speaks to programmes within the community to reduce poverty and susceptibility to narco- crime and its spin off.

The booklet can be summarised as follows:

- 1) It speaks to the ineffectiveness of the Jamaican National Crime plan but makes the following comments: “Some success has been achieved at the conceptual and tactical levels but less at the grass-root level where the common citizen sees, feels and reacts to issues. If one is to be candid in one’s assessment of the situation, the many interventions have not carried through with anything approaching maximum effectiveness to citizens and the communities within which they live.”
- 2) Premeditated criminal acts result from individual choices and behaviour; ensuring that there is a ready and just deterrent is an obligation from which the state must not retreat.

- 3) In the context of the ends justify the means concept, we have seriously played in to the hands of such Human Rights groups as **Human Rights Watch of America, Amnesty International**, which is based in London has the respect of such media houses as the British Broadcasting Corporation (BBC) with coverage in 183 countries world wide, and locally **Jamaicans For Justice (JFJ)**.

The booklet then looks at case studies worldwide how other countries are solving their problems similar to that of Jamaica's:

- 1) a Gang Resistance and Education Programme called a GREAT Programme, this could possible be coupled with the present governments Values and Attitudes programme in my opinion although he has not so linked it.
- 2) There is a look at the United States Government 5 year Strategic Development plan for the Department of Justice.
- 3) Community Policing in Australia and the Pros And Cons.
- 4) A look at a Community Safety Diagnosis, which could be used in such areas as Spanish Town, Mountain View and Canterbury areas to seriously diagnose the problems there to prevent reoccurrence.
- 5) Crime Policy Evaluation Techniques.
- 6) Investing wisely in Crime prevention- this could be of great interest to the government of Jamaica with the tight fiscal problems presently being experienced.
- 7) The role of Local Government in Crime Prevention, this is of particularly interest as I had a look at the Local Government Reform Programme and this was not very clear in the programme, especially the linkages.
- 8) Finally it looks at a framework for community safety, looking in particularly at "out of the box" thinking a horizontal and vertical approach.

I think the policy makers in the Ministry Of National Security and The Prime Minister's office should have a serious look at this document.

You need more of this type of innovative thinking out of Jamaica to maintain Jamaica's image as a premier Caribbean destination of high quality.

UNLEASHING THE POWER OF THE PHYSICALLY CHALLENGED

**...Part of the challenge of dealing with disability as an issue
in development is to demystify it.**

Judy Heumann, the advisor on disability and development in the Human Development Network at the World Bank

Imagine being excluded from school or being unable to work simply because you need glasses.

Or being unable to walk down the street because you are too short or too old to traverse high gutters designed to stop people parking on the sidewalk.

These are just two of the dilemmas that are being confronted as part of a worldwide push to foster more inclusive policies toward people with disabilities in developing countries.

Action plans are currently being prepared by working groups in all regions using a grant from World Bank President James D. Wolfensohn's contingency fund.

The aim is to make sure the needs of disabled people are addressed across the board – in education, housing, transport, the environment, across all the sectors.

The disability and development teams of the World Bank is also focusing on working in partnership with other international development agencies and disabled people's organizations to increase their capacity to lobby on behalf of their constituents.

Unless proper attention to people with disabilities is paid, it is unlikely that we will meet some of the Millennium Development Goals (international development targets to be reached by 2015).

In the case of education. Education for All means education for all children, including those who have disabilities. And yet how many of our schools are built with the access for children who have physical disabilities? How many of our teachers are trained to deal with children who have learning disabilities."

Disabled people have been something of a lost generation in many developing countries. Many children with disabilities – such as being confined to a wheelchair or deafness – are denied an education.

In some societies, disabled people suffer from stigmatization and are hidden by their families who fear they will be tarnished by association.

One of the first tasks of any disability and development team should be to work on finding out the numbers of disabled people in developing countries.

World Bank estimates to date put the number at around 10 percent of the population – about 400 million people across the whole developing world. But given that countries like the United States and Australia have reported disability rates closer to 20 percent, the 10 percent figure seems too low.

Judy Heuman (*Unleashing Human Talents, World Bank 2004*) says, in many countries, taking disability into account can be like a "low hanging fruit" in terms of making development gains.

Heumann says collecting data on disability is extremely important in terms of making gains on the disability front.

"In Brazil, when they inserted one or two questions on disability into household surveys, they found a high percentage of children that were considered legally blind actually just needed glasses," Heumann says.

There are children and adults who are unable to work or have limited ability to work or to learn but who could be quickly helped by giving them glasses or a hearing aid.

In India and Vietnam some of the curbs on the streets are inaccessible to disabled people – and even short and old people – because they are too high. Some are now being lowered at the urging of local disability advocates.

In many cases simple interventions can make a big difference to the lives of people with disabilities, their families and the overall performance of the country.

For example during major renovation or restoration efforts in the wake of natural disasters or conflicts, it adds only about 2 percent to the project cost to make buildings accessible to people with disabilities.

Part of the process of making a difference comes in recognizing the true nature of disability, which in most cases need not impede people from leading fulfilling and productive lives.

"Disability is not just people who are blind or deaf or in wheelchairs," Heumann says. "Many of the people are in a gray area with mild to moderate mental health disorders, mild to moderate intellectual disabilities, mild to moderate physical disabilities.

"People with mild to moderate disabilities need very little to be mainstreamed into society."

She says one of the biggest problems faced by people with disabilities is stigma.

"Families will hide their children or others in the family who have a disability for fear that the stigma on the whole family will be very significant."

Does The Jamaican Financial System Need A Stress Test?

Imagine you are an official at the Bank Of Jamaica or a supervisory agency such as the Financial Services Commission with responsibility for monitoring financial stability, when you get a call from your Governor or from the head of your agency informing you that you have to “stress test the financial system.” What does this mean? What is involved? Where does one begin?

Why do a stress test?

Stress testing a financial system can be a resource intensive process, so it is reasonable to ask the question: Why should a country undertake such an exercise? Countries that have completed the process often cite numerous benefits. Financial system stress tests provide information on the behavior of the system under exceptional but plausible shocks, helping policymakers to assess the significance of the system’s vulnerabilities. As noted in IMF and World Bank (2003), the value added from system stress tests derives from a consultative process that integrates a forward-looking macroeconomic perspective, a focus on the financial system as a whole, and a uniform approach to the assessment of risk exposures across institutions

Jones, Hilbers, Slack (2004), in a recent analysis states: system stress tests can complement stress tests conducted by individual institutions, and act as a crosscheck for other types of analysis. The information provided by system stress tests can also help to identify weaknesses in data collection, reporting systems, and risk management. The process itself can help to increase expertise in risk assessment by supervisors and the institutions involved, and promote cooperation

and a broader understanding of risks by different regulatory institutions. In turn, this can contribute to a better understanding of the links between the financial sector and the macroeconomy.

What is a stress test?

In individual financial institutions, the term describes a range of techniques that attempt to measure the sensitivity of a portfolio to a set of extreme but plausible shocks. Put more simply, a stress test is a rough estimate of how the value of a portfolio changes when you make large changes to some of its risk factors (such as asset prices). Stress tests are simply an analytical technique that can be used to produce a numerical estimate of a particular sensitivity. The stress testing process, however, is more than just applying a set of formulas to spreadsheets of numbers, but involves a series of judgments and assumptions that can be as critical to producing meaningful results as the actual calculations themselves. Each assumption, aggregation, or analytical approximation made in the process can introduce wide margins of error to the results, and so much care should be taken in their estimation and interpretation.

Stress tests were originally developed for use at the portfolio level, to understand the latent risks to a trading book from extreme movements in market prices. They have now become widely used as a risk management tool by financial institutions. Gradually, the techniques have been applied in a broader context, with the aim of measuring the sensitivity of a group of institutions (such as commercial banks) or even an entire financial system to common shocks.

System-focused stress tests, as the name implies, have several important differences with

portfolio-level stress tests. The ultimate intent of system-focused approaches is different, as they aim to identify common vulnerabilities across institutions that could undermine the overall stability of the financial system. The focus is also more macroeconomic in nature, as the investigator is often interested in understanding how major changes in the economic environment may affect the financial system.

A second difference between system-focused and portfolio-level stress tests lies in the complexity and degree of aggregation. System focused stress tests may involve aggregation or comparison of more heterogeneous portfolios, often based on different assumptions and methods of calculation.

System focused stress tests are not intended to replace the regular stress testing done by individual financial institutions. Instead, they are designed to complement them with a broader understanding of the sensitivity of the overall system to a variety of shocks, and to leverage the existing expertise found in different institutions. System-focused stress tests can be classified according to two types: simultaneous stress tests of multiple portfolios using a common scenario, or a single scenario applied to an aggregated portfolio or model of the entire system. Constructing an aggregated portfolio or model with sufficient detail is often an arduous and complex task, and so typically most system-focused stress tests have adopted the first approach of applying a common scenario to a variety of institutions. This approach has the advantage that it provides information on the overall impact of shocks as well as their distribution throughout the system, which can be useful for understanding the potential for contagion and confidence effects on stability. If data availability allows, conducting both types of tests—on an aggregated portfolio as well as on individual portfolios—will provide the maximum information on a system's vulnerabilities.

Important Macro-Indicators

Knowledge of the broader macroeconomic environment will provide an overall context for the performance of the financial system and indicate potential sources of shocks.

Understanding the macroeconomic picture aids the understanding of what is “normal” for an economy, with respect to its own history and in comparison with other countries. This information provides a useful metric for understanding potential sources of shocks, since key macro and financial variables that are the most volatile, misaligned, or out of equilibrium are often the most susceptible to major shocks or realignments. This analysis can also inform the macro simulations described later. Such an analysis can make use of data on the following sectors of the economy:

- The real sector: such as the growth performance of the economy relative to potential, growth rates for consumption, investment, and incomes; unemployment rates; inflationary pressures on consumer, wholesale, and asset prices. For the household and corporate sectors: measures of indebtedness, leverage, income growth, and debt servicing ability.
- The government sector, using indicators of the relative magnitude of the government deficit, debt stock, and associated debt sustainability; the size of the present fiscal impulse; and how the government budget is financed.
- The external sector, using indicators of the magnitude of the current account deficit, official reserves, and how the deficit is financed; the relative size, maturity structure, and currency composition of external debt; the extent of exchange rate misalignment and whether there are any pressures on the exchange rate.

Structural indicators

Indicators of the structure of the financial system can provide important insights into the location of risks in the financial system:

- Ownership and market shares, by institution and by type of institution identifies linkages between different components of the financial system, and helps identify systemically important institutions and sectors. This data could include total assets or profits, broken down by bank or other institution, as well as by sector.
- Balance sheet structures, derived from aggregate financial statements can indicate significant exposures to particular classes of assets and liabilities or income sources. This information can be analyzed by type of financial institutions (e.g., for the banking system, for insurance companies, for other nonbanks) as well as over time to indicate areas of concentration or accumulation of risks. Such aggregated information can be used to analyze growth rates of credit by various types of institutions and to different sectors, in conjunction with a variety of financial soundness indicators.
- Flow-of-funds accounts can provide insights into major changes in the patterns of intermediation in the economy, and trends in fund raising by different sectors and instruments, which can help identify key sectoral vulnerabilities.

Financial soundness indicators

In addition to using the broad macroeconomic context and structural indicators, we can use a range of financial soundness indicators (FSIs) to narrow the focus and

understand the financial system's vulnerability to shocks and its capacity to absorb the resulting losses.

Interpreting developments in FSIs presents particular challenges, because they are a new body of statistics in which compilation and analytical experience is often limited. In using FSIs to identify financial vulnerabilities, the following considerations should be kept in mind:

- FSIs for specific peer groups and associated measures of dispersion should be monitored to identify common vulnerabilities and concentration of risks.
- Ideally, FSI data series should extend back to cover at least one business cycle to facilitate interpretation of current FSIs.
- Data underlying the FSI ratios (both numerators and denominators) should be reviewed to gauge the source of inter-temporal movements in the ratios.
- Close attention should be paid to definitions and treatment of accounting and consolidation issues (across borders and within business groups). The general reliability of the data used to construct FSIs should also be assessed.

Stress Testing of Banks and the Basel Capital Accord

In 1996 the Basel Committee on Banking Supervision (1996, 1998) recommended that banks using the internal models approach to capital adequacy for market risk have in place a “rigorous and comprehensive stress-testing program.” This

recommendation gave impetus to a growing awareness and familiarity of stress testing by banks.

The 2004 revised Framework for the New Basel Capital Accord (or Basel II) issued by the Basel Committee on Banking Supervision (2004) goes even further in its

recommendations with regard to stress testing, in line with the increased emphasis on the use of the internal ratings based approach. Basel II now calls for banks to use stress tests for a variety of purposes.

Stress Testing of Insurance Companies

Stress testing of insurance company balance sheets and income statements is not as well-developed as stress testing of banks. This is due in part to the history of stress testing (banks were early proponents), and also due to regulatory impetus (Box 4). Furthermore, insurance companies are generally considered to represent a lower level of systemic risk than banks, mainly due to the different character of their liabilities, which often have a longer duration than banks. However, distress in the insurance sector can have important systemic implications, including through ownership relations with the banking sector and its impact on confidence in the financial sector as a whole. For insurance companies, the revised Insurance Core Principles issued in 2003 by the International Association of Insurance Supervisors (IAIS 2003a, p. 35) includes stress tests as an advanced criterion for Principle 20: “The supervisory authority requires that insurers undertake regular stress testing.” The IAIS (2003b) also issued a guidance paper on stress testing by insurers. These documents provide a broad set of principles for stress testing that companies should follow, recognizing the importance of stress testing as a risk management tool.

Stress Testing of The Corporate Sector

In many countries, loans to the corporate sector account for a significant portion of total lending. Thus, stress testing the balance sheets of the corporate sector can provide useful information on the underlying credit quality of bank portfolios (Glen (2004), Goldman Sachs (1998, 2000), and Heytens and Karacadag (2001)).

Policy Benefits of stress testing

- Country authorities and individual financial institutions now play a greater role in the design and implementation of stress tests, as familiarity and use of the techniques have spread. Increased reliance is being placed on using the internal models of banks to evaluate the impact of shocks, including their off balance-sheet exposures.
- The use of macro-simulation models to calibrate a macro scenario has increased.
- Coverage of nonbank financial institutions has increased, with large insurance companies now being included in many cases as part of the analysis.

Stress testing is best seen as a process of identifying vulnerabilities and providing a rough estimate of sensitivity of balance sheets to a variety of shocks. System-focused stress tests attempt to marry a forward-looking macro perspective with an assessment of the sensitivity of a collection of institutions to major changes in the economic and financial environment.

The process of conducting a system-focused stress test begins with the identification of specific vulnerabilities or areas of concern, followed by the construction of a scenario in the context of a consistent macroeconomic framework. Isolating key vulnerabilities is an iterative process involving both qualitative and quantitative elements. A range of numerical indicators can be used to help isolate potential weaknesses, including the “big picture” or macro-level indicators, broad structural indicators, and more institution-focused or microlevel indicators. Ideally, a macro-econometric or simulation model should form the basis of the stress-testing scenarios. A working group of selected experts may facilitate the process.

Once a set of adjustment scenarios have been produced in a consistent macro framework, the next step is to translate the various outputs into the balance sheets and income statements of financial institutions. There are two main approaches to translating macro scenarios into balance sheets: the “bottom-up” approach, where the impact is estimated using data on individual portfolios, and the “top-down” approach, where the impact is estimated using aggregated data.

A variety of metrics can be used to summarize the results of stress tests, with the most common ones being measures of capital, assets, or profitability in the denominator. Public dissemination of the results of stress tests may present some challenges, but the publication of results by a broad range of countries has shown that these are not insurmountable.

Jamaica And The Dutch Disease

Over the past week or so many commentators, analysts and politicians, commenting on our debt situation, have been asking the question where has all the money gone?

What they are possibly alluding to and not realizing it is Jamaica could be suffering from the **Dutch Disease Syndrome**, when one examines Jamaica, **1962-2004** (even if you disregard the period 1972-1980). Simply put the Dutch disease refers to **TOO MUCH WEALTH MANAGED UNWISELY**.

Miguel de Cervantes, the celebrated sixteenth-century Spanish author of *Don Quixote de la Mancha*, once said that "the gratification of wealth is not found in mere possession or in lavish expenditure, but in its wise application." This was at a time when Spain enjoyed newfound access to a wealth of natural resources, including gold, from the Americas. Could he have recognized this in his own country ?.

The disease is generally associated with a natural resource discovery, it can occur from any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment. Economists have used the Dutch disease model to examine such episodes, including the impact of the flow of American treasures into sixteenth-century Spain and gold discoveries in Australia in the 1850s.

An economy experiencing an export boom can be divided into three sectors: of these, the booming export sector and the lagging export sector are the two traded goods sectors; the third is the nontraded goods sector, which essentially supplies domestic residents and might include retail trade, services, and construction. They

show that when a country catches Dutch disease, the traditional export sector gets crowded out by the other two sectors.

What can policymakers do? A lot will hinge on whether the newfound wealth is temporary or permanent. In countries that expect new resource discoveries to be depleted fairly rapidly, aid flows to be temporary, and terms of trade gains to be transitory, policymakers may want to protect the vulnerable sectors—possibly through foreign exchange intervention. The sale of domestic currency in exchange for foreign currency—that is, the buildup of official foreign exchange reserves—tends to keep the foreign exchange value of the domestic currency lower than it would otherwise be, helping to insulate the economy from the short-run disturbances of Dutch disease that will soon be reversed. But there remains the challenge of ensuring that the buildup of reserves does not lead to inflation and that the country's additional wealth is spent wisely and managed transparently through, for example, a central bank account or a trust fund.

In countries whose newfound wealth is likely to be permanent, policymakers need to manage the inevitable structural changes in the economy so as to ensure economic stability. They may want to take steps to boost productivity in the nontraded goods sector (possibly through privatization and restructuring) and invest in worker retraining. They may also want to continue to diversify exports to reduce dependency on the booming sector and make them less vulnerable to external shocks, such as a sudden drop in commodity prices.

Whether exercising prudence in managing new riches or changing the course of the economy to adapt to new circumstances, such wise application of wealth would, undoubtedly, have won Cervantes's approval.

Does this all sound familiar? I think so.

Exchange Rate Stabilization And Political Opportunism

In response to high and chronic inflation, countries have adopted different stabilization policies. However, the extent to which these stabilization programs were designed for political motives is not clear. Since exchange-rate-based stabilizations (ERBS) create an initial consumption boom followed by a contraction, whereas money-based stabilizations (MBS) generate a consumption bust followed by a recovery, policymakers may consider the timing of elections when determining the nominal anchor for stabilization. There is strong evidence that the choice of nominal anchor depends on elections, implying the existence of political opportunism. ERBS are, on average, launched before elections while MBS are set after them.

It is clear that politics influences economic policy. Determining the extent to which this happens is quite a challenge, particularly for researchers studying developing countries.

It is a challenge worth meeting, however, because failing to design the appropriate policy may have a major negative impact on the welfare of these societies.

An example of a policy with a high political dimension and strong welfare impact is the choice of nominal anchor to stabilize inflation. In response to high and chronic inflation, many countries have adopted stabilization policies. These policies differ in their design, but to what extent these differences arise from political, rather than economic, motives are not clear. Nor is it known whether and to what extent policymakers take advantage of the consumption cycles derived

from the different stabilization strategies in order to further their political career. There are basically two possible anchors available for policymakers to stabilize inflation: the exchange rate and a monetary aggregate. These alternatives lead to two different consumption paths even if to the same end result in terms of welfare.

Exchange rate- based stabilization programs generate an initial consumption boom and later a recession in the economy whereas money-based stabilizations generate an early consumption bust followed by a recovery. A benevolent dictator might be indifferent to the differences between both strategies but elected officials must be sensitive to the reaction of voters. If voters are not perfectly forward looking, then the timing of elections might matter, and knowledge of these consumption patterns allow politicians to use both nominal anchors opportunistically. In particular, an opportunistic politician might use exchange-rate-based stabilizations prior to elections whereas monetary anchors might be employed after elections. The existence of political opportunism in the choice of nominal anchor to stabilize inflation, thereby contributing to the existing political economy literature sheds some light on the decision-making process behind a country's choice of a particular stabilization strategy. The results derived from fairly simple econometric models using data on full-fledged stabilization episodes clearly indicate that the timing of elections affect the choice of anchor for stabilization. In particular, policymakers assess how distant the next elections are before making their choice of nominal anchor in the inflation stabilization program that they have decided to embark on.

Estimates strongly suggest that the probability that policymakers adopt an exchange-rate based stabilization is higher when they are closer to the date set for future elections. The probability of adopting a money-based stabilization, on the other hand, is higher when future elections are far away and previous elections are

closer. Moreover, the results show that the stock of international reserves available for policymakers, and the extent of the openness of the economy and fragmentation of the political power not only affect the choice of anchor to stabilize inflation but also the degree to which policymakers may be more or less opportunistic in their choice of anchor. For example, three different policymakers who decide to launch a

stabilization program at different moments of their election cycle will have, respectively, 45 percent probability of choosing the exchange rate as the anchor three years before elections, 78 percent two years before elections, and 99 percent one year prior to elections, for the case where reserves cover 10 percent of M3 money supply. Likewise, other things being equal, a difference of about three years in the time remaining to next elections implies a difference of 24 percentage points in the probability of adopting an exchange-rate-based stabilization (76 percent five years before elections and 100 percent two years prior to elections).

The political economy literature has documented the impact of elections on different economic variables ranging from public budget deficits to inflation and real exchange rate. In particular, theoretical and empirical papers have established that the existence of political opportunism in developing countries creates a common pattern where these different variables cycle around elections.

An interesting question would be to assess if the effect of electoral politics on economic policy is different in developed and developing countries. If so, it might be suggested that strengthening the institutions that oversee politicians in developing countries might reduce the degree of existing political opportunism, which, in turn, may improve the quality of economic policy in these countries.

Exports + Reforms = Growth & Development

Latin American and Caribbean exports have done well in terms of volume during the last quarter century. Indeed, they have exceeded the expansion of world trade. But even with the edge in trade, economic growth has been disappointing throughout the region.

Isn't export promotion the key to growth, according to the thinking of 70's? That's what everyone used to believe; but time has shown clearly that stimulating growth requires much more than just increasing exports.

Chile is the only country in the region showing steady and vigorous growth rates almost every year since the mid-seventies. It is also the country that has had the most economic reforms during that decade. Could these two issues be related?

According to Ricardo Ffrench-Davis, principal regional advisor for the Economic Commission for Latin America and the Caribbean (ECLAC), sound reforms did play a big role in the Chilean success story.

During a recent seminar at the IDB headquarters in Washington, D.C., Ffrench-Davis offered guidelines, many of them already implemented in Chile and East Asian countries, to achieve growth along with booming exports. He also explained the similarities in the economies of Chile and East Asia, linking macroeconomic policies and increasing exports with economic growth.

In contrast with the rest of Latin America, Chile implemented an economic system based on competition, which attracted investment as it opened new exports markets. This system afforded the country favorable interest and exchange rates.

The research shows that countries like Jamaica should make good use of their comparative advantages when planning their exports. They should specialize in marketable products where they can build economies of scale. Finally, they should catch up with technology, invest in their people and promote savings.

The Caribbean and Latin America's disappointing growth rates can be attributed to a lack of sound reforms. Capital markets with unfavorable interest rates fail to encourage savings and to promote investment and loans. Moreover, small and medium firms are the ones most in need of infusions of capital. The lack of investment in education and research makes a country less competitive, thus less attractive to investors.

Each reform plays a role in a country's productivity, which could occasion either a positive or negative impact on GDP growth, defined as consumer, investment and government spending, plus net exports (exports minus imports). Exports do play a role in the overall economic performance of a country, but reforms play a bigger role to improve economic performance and equity.

IS AN INDEPENDENT CENTRAL BANK A GOOD THING?

There has been some talk over a period of time about an Independent central bank for Jamaica, which will prevent the government to put it colloquially from “Bussing the Budget” How will this work?

First, one argues that, in the short-term, there is a trade-off between unemployment (or output) and unexpected inflation. That is, if inflation is higher than economic agents expect, then the price rises they see will appear to involve real increases in value. When production becomes more valuable firms will produce more. This means that output will be higher and unemployment lower. This is a standard result of economic theory, and is not an area of dispute between the major economic schools.

Now, since governments are more popular when unemployment is lower and output is higher, that means that governments have an incentive to create unexpected inflation, if they can. But economic agents are not stupid. They are rational. Since government has an incentive to pursue unexpected inflation, economic agents will take account of this. This means that even the most prudent government will face an inflationary bias. That is, even if the government does not pursue secret inflationary policies, inflationary expectations will reflect the risk that it might. This inflationary bias will be reflected in a need for higher interest rates, and in higher inflation (since inflationary expectations tend to be self-fulfilling).

Since inflation and interest rates are raised if government can create inflation secretly the obvious solution is to take that power away from government. The most powerful influence on inflation in the short-term is monetary policy. Hence by taking monetary policy away from governments and giving it to an independent central bank one would expect to have lower inflationary expectations and to require lower interest rates to implement monetary policy.

The second part of the argument is to point at the inflationary performance of countries with independent central banks. The most straightforward example is the Bundesbank, but there are many other countries in the world with independent or quasi-autonomous central banks. And the inflationary performance of these countries has almost always been better than the inflationary

performance of countries with democratically controlled central banks. Furthermore, long-term interest rates, which reflect inflationary expectations, did indeed fall in the UK after the Bank of England was given operational independence, providing further support for this point of view.

Let us examine the observation that countries with independent central banks have lower inflation. This claim raises what economists call ‘a problem of causality’. Cause and effect can be difficult to disentangle. Is it that countries with independent central banks have low inflation? or is it that countries with low inflation have independent central banks? or is it that there is something about these countries which creates both the independent central bank and the low inflation?

One might suggest that in the case of Germany, for example, we have a country which, twice in about twenty years (i.e. in the mid-1920s and the mid-1940s), faced social collapse through hyperinflation, and hence developed a very anti-inflationary attitude throughout society. One manifestation of this anti-inflationary attitude might be low inflation. Another manifestation might be the Bundesbank.

Just observing that low-inflation countries have independent central banks does not, of itself, prove anything about whether independent central banks are good for reducing inflation.

In considering this issue we need to look at the following four issues:

1) An independent central bank prevents the co-ordination of economic policy

First, and most famously, the old argument was that monetary and fiscal policy would work best if they were working together. If fiscal and monetary policy are not co-ordinated, if they are not working together as part of some overall strategy, then economic policy as a whole will not be as effective. But, by definition, if monetary policy is run by an entirely separate and independent institution it cannot be co-ordinated with fiscal policy, or indeed with any other part of government economic policy, such as labour market policy or industrial policy. Fiscal and other economic policies have an effect on inflation, so not even inflation will have a co-ordinated policy.

2) An independent central bank removes the incentive for government to avoid inflationary policies

A second, closely related argument is that if the central bank is put in charge of keeping down inflation the government will consider that controlling inflation is someone else's job. This means that the government can pursue expansionary fiscal policies, or other inflationary policies, without fearing that it will be blamed for the consequent inflation. The clearest example of this is the period of German unification after the fall of the Berlin Wall. German Unification and a large budget deficit were pursued by the government, while the Bundesbank was expected to keep down inflation.

The consequence of this argument is that, given that many policies which cause inflation are popular apart from their inflationary consequences, since the consequent inflation can be blamed on someone else an inflationary bias is introduced into the system precisely by having an independent central bank. That is, having an independent central bank leaves the government an incentive to pursue inflationary policies.

3) An independent central bank involves a loss of democratic control

Having an independent central bank removes the ability of government to trade off short-term output rises for long-term inflation. But this is a genuine political choice. I do not favour having higher output today in exchange for inflation tomorrow and the next day, but that is my political philosophy. Other people might prefer to be able to make this trade. Removing democratic control over monetary policy may prevent people from making shortsighted errors. But democracy is all about letting people make their mistakes for themselves.

Perhaps we could appoint a permanent panel of experts to run our economy for us without any of those foolish politicians messing things up. But the failings of democracy compared with rule by experts are well known, and have been discussed for thousands of years. The fact is that in mature political societies we have decided that it is best if we can elect and reject our rulers, particularly those who have control over our money.

It is no good responding to this objection by observing that, for example, the British Chancellor could remove the current decision-makers at the Bank of England and replace them with someone else. That is true, but it merely means that the Bank of England is not totally independent of political control. Yet the argument presented in favour of independent central banks implied that the less political control there was, the better! And if we have an independent Central Bank the degree of political control, at least, will be very low indeed.

4) Central Banks are intrinsically conservative

These days appropriate monetary policy basically means appropriate interest rate policy. Appropriate interest rate policy depends on a number of things. Let us consider just one : unemployment. There are always some people changing jobs or retraining. Some unemployment is entirely natural. The amount of unemployment which is considered natural is called the "natural rate of unemployment" (NRU).

If current unemployment is above the NRU then that is a source of deflationary pressure. The extra-unemployed people will be looking for jobs and thus bidding down wages, hence production costs, and hence prices. Roughly speaking, the higher deflationary pressures are, the lower interest rates will be.

In contrast, if unemployment is below the NRU that is a source of inflationary pressure. There are not enough people switching between jobs, and there is not enough retraining going on, so workers are scarce. Since they are scarce their wages will be bid up, meaning higher production costs and hence higher prices. Roughly speaking, the higher inflationary pressures are, the higher interest rates will be.

Suppose we could reduce the NRU. That would mean that for any given level of unemployment, we should have interest rates lower than they would be if the NRU had not changed. Next suppose the government pursues policies intended to reduce the NRU. The government claims these policies will reduce the NRU, but the political opposition claims that they will not, and opposes them. Clearly these policies are a source of political controversy.

Now suppose I am an independent central banker deciding interest rate policy. Clearly, since I am non-partisan, it would be inappropriate for me to assume that the government's policies have reduced the NRU until there is compelling evidence to this effect. (If the government changes then it might become even more difficult. It would seem impossible for me to assume that the last government's policies were successful when the electorate have rejected them and those who opposed the policies have been elected!)

This means that during a period in which the government might believe, rightly, that its policies have been successful in reducing the NRU, and hence that appropriate interest rates should be lower, an independent central bank will keep interest rates higher until the lower NRU has been proven. Since central banks inevitably lag the political debate in this way, an independent central bank's interest rate policy will inevitably not reflect the possible effectiveness of controversial and unproven government policies.

This conservativeness of independent central banks means that they may often pursue inappropriate policies (or at least policies which run counter to political will of the people, expressed through their elected government), and is another reason why it is a bad idea to have an independent central bank. Politicians might legitimately disagree with the central bankers for reasons other than wanting to increase inflation.

One classic example of this last point is the UK in 1996 and early 1997. Chancellor Kenneth Clarke believed that inflationary pressure was low, reflecting his view that the economy could sustain lower unemployment and higher economic growth than in the past, because of the economic reforms which the Conservatives had pursued. In contrast, Eddie George, governor of the Bank of England, argued that inflationary pressures were growing, reflecting the view that there was little evidence that anything had changed significantly about the NRU or the sustainable growth rate. This difference of opinion was reflected in different views about appropriate interest rate policy.

Conclusion

There are two strong arguments in favour for an independent central bank

- They imply lower inflation in theory;
- Countries with independent central banks have exhibited lower inflation in practice.

There are four arguments against:

- Independent central banks undermine the co-ordination, and hence the effectiveness of economic policy;
- If controlling inflation is left to monetary policy exercised by a central bank the government has an incentive to pursue inflationary policies in other areas;
- Output-inflation tradeoffs are genuine political decisions, and should be under democratic control;
- Central banks are intrinsically conservative, and that politicians might disagree with central bankers about appropriate monetary policy without wanting to increase inflation.

In my view the arguments against an independent central bank quite outweigh those in favour.

Jamaica And The MSE Business Revolution

It is an acknowledged fact that Micro Small Enterprises (MSE) with well-established policy initiatives and guidance has solved unemployment problems along with the necessary business development assistance agencies guidance.

The 1996 National Survey of Non-Agricultural Micro and Small Businesses indicated that there were an estimated 93,110 micro and small enterprises in operation in Jamaica in 1996. Current estimates place the number of micro and small enterprises in excess of 200,000.

What would happen if in Jamaica we had a National Micro Small Enterprise Programme (NMSEP), instead of the adhoc way in which we treat MSE's in Jamaica?

For purposes of this program, micro enterprises are defined as enterprises employing four or fewer persons whereas small enterprises are defined to have between five and 33 employees. The primary business activities of the MSE sector are wholesale/retail (63%), personal services (11 percent) and restaurants/hotels (9.6 percent), other (16.4%).

This could be achieved in two phases with say \$US15 million dollars, the effect of which could see a tremendous growth in the MSE sector which would create wealth in multiples of the above figure.

The primary challenges of the program would be twofold: (i) to strengthen the policy and institutional framework for the MSE sector and (ii) to move from a

government donor subsidized credit system for micro and small enterprises to a system under which financial and non-financial services are provided to MSEs on commercial terms.

The program would involve two complementary and discrete phases: sequencing of the phases is critical to the long-term success of the program. Phase I would be designed to include components of institutional development as well as the modernization of the regulatory and sector framework for MSEs. Once this foundation is built and certain defined performance criteria are met, Phase II would commence. The evaluation tools to be used as benchmarks for progression to Phase II would be developed to measure progress made by both the public and private sectors in the advancement towards a sustainable and commercially viable MSE sector.

The decentralization of authority and regulation of the MSE sector has led to some inconsistencies within the sector. One example of such an inconsistency is that different interest rate policies are imposed upon Community Development Funds and Micro finance Organizations although both entities lend to MSE. An interest rate ceiling of 28 percent has been applied to Community Development Funds whereas Micro Finance Organizations have no interest rate ceiling.

Successful MSE development in Jamaica will depend as much on alleviating the existing policy and administrative constraints as on creating an overall favorable business environment for enterprises of all sizes. Constraints that need to be addressed fully include improved business administration procedures (such as company registration) and reforms in the areas of taxes and customs. Initiatives by donor agencies such as USAID, EU and CIDA have been undertaken to alleviate some of these concerns, but these initiatives have been conceived as isolated interventions. Coordination among donors is necessary in order to

maximize the benefits of such initiatives for the MSE sector.

Surveys of Jamaican small and micro entrepreneurs indicate that access to financial services, specifically capital and credit, is one of the most important constraints for establishing and developing their businesses. According to some estimates, as much as 85% of all small and micro-entrepreneurs have no access to credit from formal sources and rely overwhelmingly on self-financing and financial resources of family members, including transfers from overseas, as well as a variety of informal financing arrangements.

In order to increase the number of qualified financial institutions serving the MSE, actions need to be taken to mitigate the perceived high risk of the MSE sector.

Reliable collateral registries and credit bureaus need to be established to facilitate this objective. Although the need for these measures is not unique to MSE, it is necessary that to the extent possible, any initiatives in these areas include MSEs.

International and bilateral agencies have initiated activities in these areas and coordination among stakeholders is critical to maximize potential benefits to MSEs.

Clearly, a serious look at the National Micro Small Enterprise Programme (NMSEP) could lead to serious poverty alleviation and empowerment and resuscitate economic growth and hence economic development.

JAMAICA AND THE NEW MONETARY POLICY PARADIGM

In recent times there has been much discourse on the practice of Monetary Policy in Jamaica.

In fact many analysts, politicians, talk show hosts and their friends have seen it in many instances as the sole reason for the decline in growth rates in Jamaica, the collapse of poorly managed and uncompetitive businesses who had lost national, regional and global market share due to the rapid onslaught of globalization. Is this a fair assessment of Monetary Policy as practiced in Jamaica? Or has the policy evolved and now part of the **New Monetary Policy Paradigm**?

Recent joint research out Bard College in United States and the University of Leeds in the United Kingdom speak to a New Monetary Policy Paradigm, is Jamaica operating within this paradigm?

Current monetary policy involves the manipulation of the Central Bank interest rate (the repo rate), with the specific objective of achieving the goal(s) of monetary policy. The latter is normally the inflation rate, although in a number of instances this may include the level of economic activity (the U.S. Federal Reserve monetary policy is a good example of this category). This raises two issues. The first is the theoretical underpinnings of this mode of monetary policy. The second is the channels of monetary policy or, more concretely, the channels through which changes in the rate of interest may affect the ultimate goal(s) of policy. It is suggested that it is imperative to consider the empirical estimates of the effects of monetary policy. Results were drawn from the Eurozone, the U.S. and the UK and suggest that these empirical results point to a relatively weak effect of interest rate

changes on inflation. It also suggest, on the basis of the evidence that monetary policy can have long-run effects on real magnitudes. This particular result does not fit comfortably with the theoretical basis of current thinking on monetary policy and as such speak to a New Monetary Policy Paradigm.

What are the implications of this new framework for macroeconomic analysis?

- 1) The degree of the impact of interest rates, given the importance of manipulating interest rates for monetary policy purposes.
- 2) The role of money supply, whether or not it plays a casual role or not.

The theoretical literature assumes a closed economy under ceterus parabus conditions ie all being equal.

However, monetary policy is seen to also work via the exchange rate. The New Paradigm using the latter is based on open economies, linking the theory to the praxis. Three criteria are assumed:

- 1) The price level does not affect long-term real equilibrium.
- 2) Inflation is neutral.
- 3) The absence of path dependency whether relating to the experience of unemployment or in terms of investment adding to capital stock.

What does this mean?

This leads to the conclusion that the non-accelerating rate of Unemployment is unaffected by the time path of the economy and the rate of growth of the economy is in effect predetermined.

Further there is no long run trade off between inflation and unemployment or between inflation and output. The long run determination of unemployment and

output is thought to depend on the supply side of the economy and the flexibility of labour markets in particular.

This 'new' approach to monetary policy has emerged over the past decade or so. This approach has largely dispensed with any role for the stock of money in influencing economic variables and with any policy prescription to target the supply of money. Within this new approach, monetary policy becomes identified with interest rate policy, with little or no reference to the stock of money (on any measure of money). It has generally been the case that setting an inflation target is the main (and often the only) objective of monetary policy. Indeed, monetary policy can be seen as aggregate demand policy in that the interest rate set by the Central Bank is seen to influence aggregate demand, which in turn is thought to influence the rate of inflation. Monetary policy has become the only policy instrument for the control of inflation, but it can at best only address demand inflation.

The main features of this 'new' approach have been discussed, and it has been suggested that some of these can be captured in a simple macroeconomic model. However, that simple model needs to be complemented by a discussion of the many channels through which monetary policy is seen to operate. The recognition of these channels means that the chain from a change in the Central Bank discount rate to the final target of the rate of inflation is a long and uncertain one. In light of the relationship between the exchange rate and the interest rate in the interest rate parity approach, there are constraints on the degree to which the domestic interest rate can be set to address the domestic levels of aggregate demand and inflation. In view of the central place given to monetary policy in macroeconomic policies and the length of the chain from Central Bank interest rate to rate of inflation, it is important to consider the empirical estimates of the effects of monetary policy.

Results drawn from the Eurozone, the U.S. and the UK, and have suggested that these empirical results point to a relatively weak effect of interest rate changes on inflation.

Does any of this appear to be familiar with circumstances, as it has occurred in Jamaica?

or are the latter assumptions and behaviour of the New Monetary Policy Paradigm overstated? Think again.

A GLOBAL BUSINESS APPROACH FOR JAMAICA

Economic Development is occurring in tandem with the focus on the role of institutions in promoting growth and explaining growth differentials around the world. In addition to the more familiar factors, transparency and “good” institutions are now among the generally accepted fundamentals that promote investment and growth.

Based on the history of successful institution-building in the wealthy industrial countries, definitions of good institutional attributes focus on the following fundamental functions: Good institutions (1) provide an incentive structure that promotes investment; (2) lower the transactions costs of exchange; and (3) reduce uncertainty. The third function can be broadened to include reducing volatility by imposing credible and predictable restraints on agents in power positions (politicians, bureaucracy).

Jamaica needs to focus on the institutional function of reducing uncertainty and volatility. In reference to uncertainty, it is clear that the type of uncertainty in focus is not simple risky situations in which probability distribution of possible payoffs to an economic enterprise (prospect) is precisely known.

In real life, possible payoffs to an investment and the associated probabilities cannot be known with precision. There is uncertainty, or ambiguity, as distinct from measurable risk. Institutions are social mechanisms that make outcomes more easily predictable and good institutions increase accuracy in prediction. Institutions (e.g., insurance markets) facilitate the conversion of uncertainty into quantifiable

risk. Thus, uncertainty becomes “priceable”—uncertainty is reduced and transactions costs (e.g., insurance costs and interest rates) decline, which promotes investment and growth. Institutions are longer lived than individuals and provide impersonal safeguards to ensure time-consistent treatment of investment decisions and contractual commitments made in the past. In other words, institutions reduce uncertainty over time.

In summarizing the methods Jamaica can look at are as follows:

Increasing scientific knowledge and accumulation of data, along with consolidation and specialization through large-scale organization of economic activity. Consolidation of economic activity in large corporations, in which hierarchical control on production decisions can be exercised more efficiently, reduces uncertainty and transforms it into measurable risk.

Similarly, uncertainty is consolidated and its costs diversified through integrated and specialized markets and business organizations (e.g., insurance and banking); thus, decision makers “shift” uncertainty by transferring it to specialists. Central to the process of reducing uncertainty is private property and contractual freedom, which improve the prospects for control of resources (wealth) over time. Of course, consolidation, specialization, and systemic control of economic decisions and resources are the main underlying characteristics that define robust market institutions. The thinking here is that such market institutions emerge primarily to deal with uncertainty.

The intuitive link between good institutions and less uncertainty (and “bad” institutions and more uncertainty) is rapidly making inroads in the economic

literature, particularly in the course of attempts to explain growth differentials among countries.

Recent economic literature refers to the basic institutional function of lowering uncertainty in the sense as transparency. However, an apparent gap remains between current research in explaining how institutions lower uncertainty and, therefore, are instrumental in explaining growth differentials among countries.

The fundamentals of decision making under uncertainty have been subject to academic debate, ever since the Leonard Savage-John von Neumann-Oskar Morgenstern expected utility theory (EUT) gained prominence and was widely applied in economic analysis.

Critiques of EUT, notably by Maurice Allais and Daniel Ellsberg (1962, 2001) and the subsequent research they spawned continue to challenge the EUT approach on a conceptual and experimental level, sometimes even questioning the fundamental-rationality hypothesis (Heiner, 1983; North, 1993; Kahneman, 1994, 2003). The bounded-rationality approach, emanating from Herbert Simon's seminal work, appears to have taken two tracks: one is the cognitive (psychological) limitations of human mind and the other is the limitations on availability of information and technologies to process it.

Availability of information and better methods of processing it reduce, but do not eliminate, uncertainty, so it is reduced to simple risk, which is the case that routinely dominates economic analysis under EUT. Complexity over space and time results in uncertainty, which persists even when we recognize and attempt to deconstruct it.

A new theory of decision making under uncertainty, namely the cumulative prospect theory (CPT), originally developed by Daniel Kahneman and Amos Tversky (1979, 1992), which culminated in the 2002 Nobel memorial prize in economics. Nevertheless, applications of CPT to economic theory have been scant. More broadly, as noted by David Kreps (1999) and Oliver Williamson (2000), behavior of “human actors” in uncertainty, implied by incomplete contractual situations, and the role of institutions in shaping (regulating) that behavior remains an underutilized research area.

The first basic question Jamaican institutions needs to answer is how do institutions reduce uncertainty and increase transparency? They accomplish it by excluding a wide array of possible events and outcomes through vertical and horizontal integration. This will ensure that good institutions reduce uncertainty to a greater extent and more credibly than bad institutions. This leads to the second basic question: how can lower uncertainty (greater transparency) result in greater investment and growth? Lower uncertainty results in a higher value for the expected rate of return on a given investment. Therefore, institutionally stronger countries attract more capital investment and grow more.

Finally, the question is does less uncertainty result in less volatility? Volatility is the result of uncertainty about the range of possible outcomes; therefore, less uncertainty implies less volatility.

Why Some Countries Do Better at Job Creation

Growth and no job creation is a problem in Jamaica. The employed labour force increased by 300 persons to total 954,600 in 2003(ESSJ 2003 Pg21.2). Females continued to benefit from increased employment opportunities, as the female employed labour force increased by 700 persons (ESSJ 2003 Pg21.2) to 402,300. On the other hand males had 400 fewer jobs, resulting in the male employed labour force declining to 552,300.

Many studies have attempted to explain why some countries have higher unemployment rates than others, but less attention has been devoted to countries' relative performance in job creation, or net employment growth.

Shifting the focus to job creation has four advantages:

Employment is much easier to measure than unemployment. Measuring unemployment involves subtle distinctions between individuals who are in the labor force and those who are not: those counted as unemployed must say they are actively looking for a job; yet in high-unemployment countries in particular, so-called discouraged workers stop looking for work and remain uncounted. Conversely, many who claim to be looking for work may be half-hearted about it, the more so as their prospects dwindle.

A second reason for trying to understand job creation better is that for any given level of unemployment, faster job creation increases a country's output, and,

among other things, raises the ratio of workers to pensioners, thereby lowering the cost of its social safety net.

Third, the insights gained from studying unemployment do not necessarily hold up when the focus shifts to job creation. For example, laws, programs, or labor agreements making it relatively difficult or expensive to lay off workers seem to have no effect one way or the other on the unemployment rate. However, strong systems of job protection appear to have a big effect in holding down job creation.

Finally, analyzing employment growth instead of experience with unemployment offers richer results. Data on unemployment, for example, tell us nothing about the kinds of jobs available in the workplace, or the terms under which workers hold them, such as whether they are permanent or temporary, or full-time as opposed to part-time. A look at these factors lets us assess, among other things, whether faster job creation in the United States than in Continental Europe comes from historical conditions, such as a much lower proportion of farm jobs or traditional manufacturing jobs, which have been stagnant or declining in all advanced countries. This approach can also examine the effects of women entering the workforce in larger numbers in recent years, and can shed light on important policy questions, such as whether promoting part-time work leads to higher overall job creation or merely cannibalizes full-time jobs.

A legitimate argument against this approach is that over very long periods of time, employment growth should simply equal the growth of the working-age population. However, in the medium term--20 years or so--government policies and institutional differences can have a big impact on the share of the working-age

population that decides to participate in the labor market. Furthermore, the pace of job creation affects the growth of the working-age population itself, since countries adding jobs fastest will tend to attract more immigrants.

MUNICIPAL BONDS AND POVERTY: LOCAL GOVERNMENT FINANCING IN JAMAICA?

*“Jamaicans are patient, trustful and law abiding and if properly treated no one has anything to fear. The conditions existing today have not sprung up overnight but they have been left to grow worst till the situation is now acute....
What Jamaica needs now is practical and sympathetic men interested in the country and not charlatans and self-seekers making long speeches about nothing...*

Rt. Excellent Sir Alexander Bustamante, Letter To The Editor In 1935

I recently watched on television a high profile local government official in the parish of St. Mary, lamenting the lack of Sustainable Poverty Alleviation (SPA). He in fact was being very critical of the National Poverty Eradication Programme (NPEP) and justifiable so, especially with the increase in poverty figures recently coming out of the PIOJ.

I share something with your readers, in 2000, the World Bank Report;

Consultations with The Poor: Jamaica is quoted as follows:

“Formal poverty indicators (some of which were identified by the Planning Institute of Jamaica – PIOJ) were used as a guide to locating specific poverty factors in certain areas of the country. Previous poverty studies carried out had divided the poverty areas into four quartiles, the first quartile representing those locations least poor. However, studies carried out after the assessment by PIOJ

revealed these quartile brackets to be inaccurate. For this reason, **Freeman’s Hall in Trelawny**, previously given a quartile one rating, was re-evaluated using participatory models of assessment, which contradict these previous ratings. Our research team revealed information that showed Freeman’s Hall as falling into the lowest” quartile (4) category.”

I gather the local Government budget will be cut and there is general panic and justifiable so as parish councils are coming under pressure to deliver services for which they have no resources. From a partisan political point of view if creative solutions to solve this lack of financial resources are not found quickly, it could be perceived that the Government is being purposeful in undermining the duly elected Jamaica Labour Party Local Government.

Ministry Paper 7/03 on Local Government Reform, which the government has conveniently forgotten about and Opposition members at the Local Government level, who are victims of compartmentalization, have never seen, speaks to the following:

No. 3 is:

3.1. Dedicated Resource Base

3.1.1. Property Taxes

3.1.2. Motor Vehicle Licence Fees

3.1.3. Local Rates

3.1.4. Trade and Spirit Licence Fees

3.1.5. Building and Sub Division Approval Fees

3.1.6. Fees from other regulatory functions

3.1.7. Municipal Bonds

3.1.7 Refers to Municipal Bonds, this needs to be seriously looked at.

- 1) Who would buy these bonds? The small man on the road if he can be assured that bond proceeds will be ploughed back in to infra-structure in his community. And overseas Jamaicans – **Save Jamaican Towns And Cities**
- 2) There would have to legislative changes to facilitate this process.
- 3) The concerns of additional debt in a volatile economic environment: Make it a 10-15 year Bond.
- 4) A committee co-chaired by Two (2) prominent Investment Bankers, would be formed to facilitate the process.

Youth Underdevelopment in Jamaica

When one looks at the draft youth policy of the Government of Jamaica, the policy is divided into six (6) priority areas:

- a) Living environments
- b) Education And Training
- c) Employment And Entrepreneurship
- d) Health
- d) Participation and Empowerment
- e) Care and Protection.

However in speaking with young people across the Island formally and informally they speak to ten (10) priority areas:

- a) Education
- b) Employment
- c) Poverty & Hunger
- d) Health
- e) The Environment
- f) Drug abuse
- g) Juvenile Delinquency
- h) Leisure Time activities
- i) Girls and Young Women
- j) Youth participation In society

Ironically, these are the same areas that the 2003 World Youth report speaks to of youth worldwide; hence, the needs and wants of Jamaican youth are in line with global trends. Further, the United Nations has mandated member countries by the end of 2005 to assess the effectivenesses of their Youth policies using the above-mentioned 10 areas. The report from Jamaica will be an interesting one. I look

briefly at two burning areas of interest that seriously affect the 15-24 age group in Jamaica and give some suggestions:

Hunger and Poverty

Rural poverty is on a serious increase the figures tell us there was a 25.1 % increase (ESSJ 2003 Page 25.10). Youth Under the poverty line is approximately **93,572** (see STATIN 2003, Demographic Statistics Page 6 Table 10). How should we attempt to resolve this pressing youth problem?

Proposals for Action

1) Government should enhance educational and cultural services and other incentives in rural areas to make them more attractive to young people.

Experimental farming programmes directed towards young people should be initiated and extension services expanded to maintain improvements in agricultural production and marketing.

2) Government should provide **GRANTS OF LAND** to youth and youth organizations, supported by financial and technical assistance and training.

Employment

In Jamaica, the influx of young people into the employment market has brought with it acute problems. The Youth Labour Force in Jamaica is 242,600, 22% of total labour force. But, 38.0% on average of this figure is not able to participate in the labour force. What this means is that we as a people, the nation of Jamaica

have not found meaningful reward to assist **92,188** young people in Jamaica (see ESSJ 2003 Page 21.1 Table 21.1). This is a **NATIONAL DISGRACE**. No wonder we are having the serious social problems we are having in Jamaica.

Proposals For Action

1) Government and organizations should create or promote grant schemes to provide seed money to encourage and support MSME (Micro-Small Medium Enterprise) and employment programmes for young people. The formation of **YOUTH DEVELOPMENT BANKS** could be considered.

2) Within funds designated to promote youth employment, Government should, as appropriate, designate resources for programmes supporting the efforts of young women, young people with disabilities, street children.

Some of these initiatives are either in the pipeline or are being implemented, but.....Many Young People are not aware, as such, there needs to be a serious effort for Youth policy Implementation and monitoring rather than the present ad-hoc policy.

A youth policy as outlined above in line with these ten priority areas would make for better Youth policy and seriously address the needs of youth in Jamaica.

Taking in to consideration that between 2002 to the present Youth development support by the government has declined approximated 27% percent, from \$137.5 Million to \$100Million (See Estimates Of Expenditure Page 4100-71).

If the private sector in a community has a clearly defined and comprehensive Youth Policy they will be better able to help the youth of this nation, which will not only assist the youth but also government and its representatives at the local and national Levels. As such, limited funds will be well spent.

Failure to address proactively aspects of **Youth underdevelopment** in Jamaica, we will end up with a failing grade for the report in 2005 we have to submit on the progress of youth development in Jamaica. The Youth of Jamaica need to make themselves globally competitive so that politicians will not refer to them disrespectfully as being illiterate.

SPANISH TOWN AND THE NEW TRANSFORMATION

"No one is born a good citizen; no nation is born a democracy. Rather, both are processes that continue to evolve over a lifetime. Young people must be included from birth. A society that cuts itself off from its youth severs its lifeline."

Kofi Annan, UN General Secretary

I read and observed on television recently, Government, Private Sector and Civil society prescribing for Spanish Town. Many interesting and contrasting views were expressed.

Since we are rebuilding the nation let us take this opportunity to really rebuild Spanish Town socially and economically.

What are the facts?

- 1) 69 alleged gangs
- 2) 81 zinc fence communities
- 3) High youth unemployment
- 4) High youth crime levels
- 5) Low education levels
- 6) Great expectations
- 7) Inability to fend off globalization at the domestic level.

- 1) A serious attempt at a Jamaica G.R.E. A.T. programme i.e. Gang Resistance Education and Training.
- 2) A Private Sector/Government Urban Renewal Programme (PSGURP)
- 3) A combination of Youth Grants/Apprenticeship Programme (YGAP)
- 4) A Spanish Town Youth Crime Initiative (STYCI)
- 5) A specially designed programme for Youth empowerment in this area getting back to the BASICS, emphasizing strong numeracy and literacy skills such as Youth Education And Empowerment Programme (YEPP).
- 6) Expectations are based on needs and wants and promises made for a better Jamaica as such a Youth Nation Building Programme (YNBP) where the said sector will see themselves as an integral part of the process.
- 7) If 1-6 were to materialize, in the medium to long term the reality of being a member of the global village will become second nature.

In Political Marketing to win elections and to solve problems you target the group, which you hope to sell your ideas to. We as nation, it would appear, have to do a better job in targeting this group called YOUTH. In a country like Jamaica where funds are limited there is not TIME to reinvent the wheel; as such, the old axiom of WHAT COUNTS IS WHAT WORKS should be seriously applied if we wish to see a serious transformation of SPANISH TOWN.

P.A.T.H.E. UNDER THE MICROSCOPE

There has been much criticism in the media and on talk shows recently of the PATHE programme, but a lot of this have been very qualitative and lacking substance and merely based on hyperbolic political diatribe. It is time politicians in Jamaica speak to the facts and stop misleading the public in general.

The PATHE programme was recently analysed by the World Bank with some interesting outcomes and conclusions. Firstly the PATHE programme is not a Jamaican prototype but rather what the World Bank refers to as a Conditional Cash Transfer (CCT) Programme.

Mexico was one of the first governments to introduce a conditional cash transfer program. PROGRESA, the Programa de Educación, Salud y Alimentación (Education, Health and Nutrition Program) was launched in 1997 and recently renamed Oportunidades. It offers health and education grants to families on condition that their children under age six visit health facilities regularly and those 6–17 remain in school, attending regularly. The program replaced general food subsidies, and is fully financed by the national government. Combining geographical and household targeting, it has become the largest conditional cash transfer program in Latin America, serving more than 3.5 million families, and is now being expanded to urban areas and older children. Brazil followed in the late 1990s with the Programa Nacional de Bolsa Escola and Programa de Erradicacao do Trabalho Infantil (PETI) which seek to reduce poverty, increase educational attainment, and decrease the incidence of child labor. The Bolsa Escola Program is financed at the municipal level and operates in metropolitan areas of Brazil. PETI covers children aged 7–14 in rural areas, and in 2003 plans to expand to urban areas and target children involved in prostitution, drugs, and other harmful

activities. The new government under President Lula is now in the process of integrating several CCT programs into a single, improved conditional cash transfer program called “Bolsa Familia”.

Jamaica introduced a conditional cash transfer program in 2001 as the centerpiece of a broader effort to reform a social safety net characterized by duplication of programs, deficient targeting, and poor coordination among social ministries and agencies.

Three parallel transfer programs, each with different rules and selection criteria, were consolidated into a CCT program called “Program for Advancement Through Health and Education (PATHE)”.

PATHE provides benefits to children, pregnant mothers, and disabled, elderly and indigent poor conditioned on school attendance by children ages 6–17 and regular health clinic visits by others.

Under PATHE, the Jamaican government introduced a universal Beneficiary Identification System, a proxy household means test and it is envisioned that other safety net programs—including school feeding, school fee assistance, health programs, also will use the system in the short and medium run. The World Bank helped facilitate a consensus on the reforms, supported design of the CCT program including its targeting mechanism, and helps finance benefits and technical assistance.

Some Pros and Cons are Conditional Cash Transfers improve efficiency and effectiveness of safety nets in several ways:

- 1) A single instrument achieves multiple objectives relating to health, nutrition, and education.
- 2) Proxy means testing and geographical targeting achieve better results than general subsidies, household targeting allows programs to reach the poorest of the poor.
- 3) CCTs can be made transparent (who receives which payment).
- 4) They can be quick crisis response mechanisms because governments can vary benefit levels and beneficiary numbers as conditions change.
- 5) Cash benefits have much lower transaction costs than in-kind benefits.
- 6) They empower families, especially women, allowing them to choose how and when to use the benefit.
- 7) They have achieved significant, measurable impacts on beneficiaries' welfare, notably in health, education and nutrition.

However, questions regarding the effects and effectiveness of conditional cash transfers programmes such as PATH are:

- 1) How can targeting be designed to be sufficiently flexible and resistant to outside influence?
- 2) Should all transfers be conditional, for instance, by earmarking them for disabled people?
- 3) Should demand side interventions wait until the supply is fully adequate? Do transfers have undesirable effects on people's decisions to seek work, or provide incentives to have more children?

Some issues need more research and others need to be addressed in specific country contexts.

Jamaica And The Global Village.

In order to successfully integrate into the Global Village and be successful members of the emerging Network Society, Jamaica needs to consider seriously, proactive policy guidelines or as many have in other countries, we will become a statistic of the New Informationalistic Capitalism (NIC).

Research out of the International Monetary Fund (IMF), The World Bank (IBRD) and the Inter American Development Bank (IADB) to name a few, collectively speak to seven (7) guiding principles which can be applied to Jamaica successfully if the mindset in the country moves away from linear thinking to three dimensional thinking (“Out of the Box”).

Principle One: Macro Economic Stability

An important **first** element in the policy mix is the need to maintain macroeconomic stability in Jamaica since this would create a business environment free of uncertainty and unanticipated costs. A ‘stable’ macroeconomic environment would entail low rates of inflation, lower interest rates for loans, low exchange rate variations, a reduced debt service ratio, a low fiscal deficit as a percent of GDP and balance on the balance of payment (BOP).

Principle Two: Human Resources Development

A **second** area of policy focus is in the area of human resources development (HRD) through education and training in new or frontier skills. In a dynamic business

environment, enterprises need to stay competitive by boosting the productivity of their workforce through re-training and education. Surveys of Jamaican enterprises and interviews with key informants emphasized the critical role of HRD in boosting productivity and hence competitiveness. Some efforts are being made to promote HRD in Jamaica. The HEART/NTA has been at the forefront of technical and vocational training in Jamaica. It has made information technology and entrepreneurship training mandatory in its programs. In addition, it has sought to provide a positive work attitude in its graduates and encourage them to be more entrepreneurial. While Jamaica has universal primary level education, there are still fundamental problems at the secondary and tertiary levels. The Government has introduced a reform program to enhance the quality of secondary level education and move towards its universality. At the tertiary level a recent UNDP study seriously conflicts with government's thinking and that of the hierarchy of the University Of The West Indies. Both need to converge and the starting point must be a radical curriculum change to meet the demands of the 21st century especially in the Faculty of Social Sciences.

Principle Three: Productivity Incentive Schemes

A **third** policy aspect is the development of Productivity Incentive Schemes (PIS) which would link compensation (i.e., workers' pay) to organizational productivity/performance. These schemes have been used to boost productivity/performance in organizations since they permit the distribution of any gains achieved from exceeding expected targets. The members of the JCTU have been speaking to this issue for sometime now, however, there seems to be a lack of political will to seriously implement, As such, only a few exist.

Principle Four: Social Partnership

A **fourth** policy area is the promotion of productivity and competitiveness through the establishment of social partnership involving the Government, employers and workers through their representatives.

The successful implementation of this in an evolving plantation economy like Jamaica will depend only on ALL partners pulling their weight. As such, one cannot be asking workers to freeze wages when on the other hand companies are given rate increases at three times the inflation rate, there has to be a level playing field and the promotion of the concept of the Hyper Plantation Philosophy either integrated or re organized.

Principle Five: Public Sector Reform

A **fifth** policy area is related to the reduction of bureaucratic red tape, which increases ‘transaction costs’ (i.e., the costs of doing business in Jamaica). The objective would be achieved through a renewed attempt at public sector reform aimed at developing new operational procedures for the approval of requests – Customs, Town and Country Planning, Ministries and the coordinating of the activities of various ministries. There has been some progress in this area but the mindset of the civil servant’s resistance to the use of Information Communication Technologies (ICT) on one hand and on the other hand the attempt by the Public in some cases to beat the system as a result of the ingrained practice of corruption are in serious conflict and need to be resolved rapidly.

Principle Six: Technological Modernization

A **sixth** policy direction is the need to provide financial and technical support for enterprises to retool and modernize their operations. Such retooling and modernization would involve the use of information technology and new machines/equipment in the production process along with the employment of biotechnological methods in the agro-processing and agricultural sector. Trinidad did this in 1970's when we were using development money for non-productive purposes, to put it euphemistically. This support would have to be carefully monitored, as past experiences in Jamaica have not been favorable.

Principle Seven: Export Marketing

A **seventh** area of policy formulation is export marketing in the context of a liberalized trading environment. Several enterprises need technical and financial assistance with the marketing of their goods and services in extra-regional markets. Such marketing actions must be formulated in the context of a new trade policy framework, which includes targeting non-traditional markets for Jamaican products. In 2005 with the advent of the Free Trade Area of the Americas (FTAA), Jamaican enterprises would have greater access to Latin American markets. A further strengthening of Jamaica Promotions (JAMPRO) with an additional focus on South-South Trade (SST) is very important now to prepare us to take advantage of this opportunity.

Finally, a recent IDB (2002) report points to the benefits of regional integration in promoting productivity. The formation of the Caribbean Single Market and

Economy can offer Jamaican firms the opportunity to realize such gains. The Government can work with enterprises in the export sector – agriculture, manufacturing, tourism – to develop a marketing strategy focusing on a selection of the key elements of competitiveness: quality, volume, product flow, price and reliability.

Political Ignorance and Crime In Jamaica

Crime in Jamaica continues to be a serious challenge for the Nation of Jamaica. However there are other countries that have had similar problems or the same problems and solved them. Why can we not take a leaf out of their book?

With the upsurge in crime which an alleged gang is being blamed for in Spanish Town, I once again bring to the attention of the nation of Jamaica, the concept of the Community Safety Diagnosis which will not be a panacea but will aid in stemming the problems in Spanish Town in the medium to long run. We must remember that if they are no “soldiers” coming to the corners there can be no “Armies”.

Firstly, The Community Safety Diagnosis I am recommending for the troubled areas of Spanish Town could possible be funded via grant from CIDA, Canadian International Development Agency if The Political Directorate at both the local and National levels could persuade them.

What Is A Community Safety Diagnosis?

The first step in co-producing security involves conducting a proper assessment of the problems and challenges in the given community in order to develop the most appropriate strategies for improving public security. A Community Safety Diagnosis is a knowledge tool that serves to better inform and guide actions taken.

How Does The CSD Work?

The Community Safety Diagnosis is a tool used to better identify the issues and challenges involved, to identify the risk factors at the local level, and to determine the measures most likely to be successful given the community's resources.

However, a diagnosis must go beyond simple description of issues and resources to also include a

needs assessment based on the analysis of various types of data:

1) social indicators of risk such as unemployment and poverty rates, demographic and sociocultural make-up of the community, housing conditions and availability, and cultural and recreational facilities available;

2) data on delinquency, delinquents, and victims, particularly police and court statistics, the rates of cleared offences, incidents reported by community associations, schools, businesses, community-based groups, and public transit authorities. Such data is used to identify and analyze geospatial variations in security measures between different areas of the city. Use of geo-coding software can be used to produce maps representing geographical areas with concentrations and superimposition of various social and criminal problems. In turn, the use of such data collection and software does raise certain issues to be considered, both technical (collecting data that will be geo-codable) and ethical (protection of privacy), which a local committee would be best to resolve;

3) data on the demands for security such as issues raised in neighborhood meetings, victimization polls that evaluate the population's feelings of security, other surveys of professionals working on-the-ground in the relevant area, and analysis of data collected by prevention agencies that are already active;

4) data on the supply of security services (e.g., existing resources and on-going interventions) by the various organizations responsible for ensuring safety: police, justice, private security, social services and associations, etc. Many indicators can be used to evaluate the supply of security such as, among others, the allocation of police resources, indictments and convictions, consideration of victims, use of private security firms by businesses, insurance claim rates, security activities carried out by other organizations and institutions (schools, public housing), and the quality of public places.

Correlating these quantitative and qualitative data from multiple sources creates a more comprehensive picture of the demand for security than that provided by police data alone. Next, people's security needs can be better identified by comparing information on the demand for A Safety Diagnosis' purpose is to compare measured and expressed safety needs to existing resources and actions being undertaken. Making this comparison successful involves the collection of various types of data, particularly social, economic, and criminal data. Security with that on the supply of security services (actions and services offered by a plurality of actors). Such comparison allows the identification of non-response zones (where needs are not being met) as well as areas where services are not in line with the demand (needs inadequately met).

Conclusion

It is this analysis of the adequacy of balance between the supply and demand for security that is at the heart of the Community Safety Diagnosis. When carried out by all local partners collectively, a diagnostic can serve to strengthen a local coalition and contribute to the development of a common vision for all stakeholders. Furthermore, this analysis allows priorities to be identified and assists in preparing action plans that are tailored to local contexts. One challenge to consider is that such a collective effort brings together actors with differing

conceptions and interests who, by virtue of their institutional nature, are not always inclined to accept sudden changes.

This is a project The Ministry Of Local Government and the Social Development Commission could have a serious look at if it is not already on the drawing board in the Political constituency of Central St. Catherine as a pilot project.

The Poor In Jamaica Can Have A Greater Say In Government Policy?

In view of the recent figures out of STATIN that poverty in Jamaica had increased 25 %, the National Poverty Eradication Programme, which comes under the Office Of The Prime Minister will be further stretched, policy wise to reduce this growing problem especially when by December 31st this year we will have to send to the United Nations our PLAN OF ACTION for Millennium Development Goals Achievement by 2015 of which the first goal is to reduce poverty by half in Jamaica. However, those writing on the topic which you have highlighted in your newspaper have deemed it fit to look at the Macro level instead at the micro level which the world is doing and the EU is funding in Jamaica in Many projects through CBO/CDD ie Community Based Organization/ Community Driven Development.

Development thinking has changed significantly in recent years. Policymakers have recognized the ability of the poor to make a valuable contribution to the analysis of poverty and are consulting them directly. This new participatory approach has resulted in a broader definition of poverty and better-informed public policies that are more responsive to the needs of the poor.

By the end of the 1990s, there was growing recognition by governments and civil society of the need to change the way national strategies to reduce poverty were developed and implemented. Previous strategies had met with little success in Latin America and Africa, and poverty was on the rebound in East Asia after the financial crisis of 1997-98. It had become clear that, to succeed, poverty reduction programs needed to be developed by the countries themselves—rather than

imposed from the outside—and that the input of the poor was critical to the development of effective poverty reduction strategies.

In September 1999, the World Bank and the IMF agreed to major changes in their operations to help low-income countries achieve sustainable poverty reduction. Henceforth, programs supported by the two institutions will be based on government-driven poverty reduction strategies (PRSs) developed in consultation with civil society and summarized in poverty reduction strategy papers (PRSPs).

In formulating poverty reduction strategies, policymakers have begun consulting the poor directly through participatory poverty assessments (PPAs), a methodology developed during the 1990s by governments, nongovernmental organizations (NGOs), academic institutions, and donors. Although many methods have long existed for consulting the poor on the development of projects, PPAs are different in that their findings are intended to be used in national policymaking. To date, more than 50 countries have undertaken PPAs with assistance from the World Bank; an equal number of PPAs have been conducted by other agencies, including the United Nations Development Program, bilaterals, and NGOs.

What is a PPA?

A PPA is a tool that allows us to consult the poor directly; findings are transmitted to policymakers, thereby enabling the poor to influence policy. Unlike a household survey, which consists of a

predetermined set of questions, a PPA uses a variety of flexible methods that combine visual techniques (mapping, matrices, diagrams) and verbal techniques (open-ended interviews, discussion groups) and emphasizes exercises that facilitate information sharing, analysis, and action. The goal is to give the intended

beneficiaries more control over the research process. PPAs are usually carried out by intermediaries such as NGOs, academic institutions, government extension workers, and local consulting firms. The approach "stresses changes in the behavior and attitudes of outsiders to become not teachers but facilitators, not lecturers but listeners and learners" (Chambers, 1997). To ensure follow-up at the community level (a principle of participatory research), many PPAs (for example, those in The Gambia, Tanzania, and Uganda) have involved the development of community action plans subsequently supported by local governments or NGOs. Using PPAs to extract information just for research purposes, with limited participation and no link to policymaking, is considered bad practice.

Policy analysis in the past was focused on a classic statistical approach to poverty based on indicators of income, health, and education; poverty itself was measured by a money-metric poverty line derived from traditional household surveys. It has been recognized that an approach dominated by economic analysis fails to capture the many dimensions of poverty, while a multidisciplinary approach can deepen our understanding of the lives of the poor. PPAs, with their focus on well-being and quality of life, have consistently shown that such problems as vulnerability, physical and social isolation, insecurity, lack of self-respect, lack of access to information, distrust of state institutions, and powerlessness can be as important to the poor as low income.

Moreover, because PPAs go beyond the household unit of traditional surveys to focus on individuals, intrahousehold dynamics, social groups (based on variables such as gender, ethnicity, class, caste, age), and community relationships, they capture the diversity of poverty. They have shown that people's priorities and experiences are affected by such variables as gender, social exclusion, intrahousehold allocation of resources, the incidence of crime and violence,

geographical location, access to networks of support, and relations with those in power.

Advantages of PPA's

PPAs have three key elements. First, they increase our understanding of the multidimensional nature of poverty and enable us to include the perspective and priorities of poor people in our analysis of poverty and formulation of policies.

Second, they promote wider ownership of researchers' findings

and increase the influence of these findings on policymaking by including a cross section of other groups (for example, NGOs, policymakers, administrators, civic groups) in the process. Third, they can help countries increase their capacity to analyze and monitor poverty, as has happened, for example, in Mongolia, Vietnam, and Zambia.

POVERTY AND INEQUALITY IN JAMAICA

“Even more troubling is the persistence of income inequality, which is the worst of any developing region in the world. In the 1990s, there has been a modest narrowing in the gap between rich and poor. However, poverty has remained far above what would be expected given the region’s per capita income.”

Enrique V. Iglesias, President,
Inter-American Development Bank
April 1998

In the context of the youth uprisings in Spanish Town and the fact that a greater majority of crime in Jamaica is in the 15-24 age group; over the last 2-3 weeks there have been numerous interviews with young persons, particularly in the 15-24 age group on radio and television and many have been calling in on the talk show programmes. These young people speak to unemployment, hopelessness and more seriously a lack of knowledge of what opportunities are out there for them. The United Nations Global Youth Report 2003 (Chapter 2, Pg 8) issued on the April 27,2004 singles out Jamaica’s youth unemployment as the second highest in the world behind Namibia in S.W Africa. There are government programmes out there to alleviate these problems, but they are not being actively accessed. This speaks to a serious communication problem in terms of marketing by those offering these programmes to uplift people.

Another issue not spoken to is a serious Income inequality not only in Jamaica as experienced now but also in the entire Latin American and Caribbean region.

Latin America and the Caribbean face a paradox. For too many people in the region, poverty amidst plenty remains a daily reality. While much of the region has registered important economic and social gains, poverty has become more persistent and more concentrated within pockets of society. Today, at least 150 million people in Latin America and the Caribbean are considered poor, and both the incidence and absolute level of poverty remain higher than they were in the 1980s. Therein lies the challenge. In Jamaica, the poverty line income is \$US2.15 per day (\$JA47, 000 per annum see ESSJ 2003 page 25.10) \$US1.15 above world average, but this in Jamaica is still not sufficient to launch the necessary potential to uplift people in Jamaica, especially young persons.

In spite of modest improvements in the 1990s, income inequality remains the worst of any developing region in the world. The lowest fifth of the population in Latin America and the Caribbean received 4.5 percent of national income, while the highest fifth received 55 percent. Severe income inequality is underpinned by extreme inequality in the distribution of assets, notably land and human capital. As a result of this wide disparity between rich and poor, poverty has been far above what would be expected given the region's per capita income.

A cornerstone for reducing poverty over time is sustained economic growth; yet growth alone is not enough. In addition, investments in people are needed to raise their level of education, training, and health. Efforts are required to help the poor earn their way out of poverty and improve their quality of life. Steps must be taken to increase the participation of the poor, not only in specific projects, but also in

the public policy-making process. Taken together, these efforts form the foundation for a successful poverty reducing strategy.

Over the past decades, much progress has been made in reducing poverty in Jamaica and in the Latin American and Caribbean region; yet much more remains to be done.

Two things are clear. First, reducing poverty requires multiple efforts across a range of sectors and activities.

As such, it involves a variety of participants, institutions, and tools, none of which in isolation can work as effectively as they do together. Secondly, the state of knowledge about poverty and the impact of the poverty reducing strategies are incomplete (the discovery of 81 zinc fence communities in Spanish Town and the effects of such conditions drives this point home succinctly). To achieve lasting solutions, a greater effort is needed to document the extent and nature of poverty. At the same time, the impact of poverty policies is not fully understood. Thus, in some cases, the success of some programs still must be proven.

Nonetheless, experience and analysis indicate that successful programs require adequate information, targeting to those most affected, effective community participation, and appropriate decentralization.

PRESS FREEDOM AND POVERTY

On 2004, May 3. The world commemorated World Press Freedom Day. However, what is not known is the important link between Press Freedom and poverty eradication.

A free press is a key element in the global fight against poverty and can act as a catalyst for economic development.

But out of a global population of 6 billion people (World Bank Source), only 1.2 billion live in countries with access to a free press. Of the remainder, 2.4 billion live without a free press and a further 2.4 billion live in countries where the press is only partially free.

The majority of those people live in the developing world. These imbalances in press freedom reflect broader imbalances between the rich and poor countries.

A free press not only serves as an outlet for expression, but it also provides a source of accountability, a vehicle for civic participation, and a check on official corruption. It can also contribute to education programs and public health programs such as the fight against HIV/AIDS.

SECONDARY OR TERTIARY EDUCATION—WHICH SHOULD PUBLIC POLICY PROMOTE?

There has been much uninformed talk leaning to the socio-political rather than national development thinking as to whether to for example to charge students 100% of fees at the tertiary level and transfer subsidies to other areas of the education system. The following arguments based on well-defined research serves to enlighten the debate on this very important topic.

Rodney Ramcharan an Economist in the Research Department at the International Monetary Fund, in his recent research on Higher or Basic Education? The Composition of Human Capital and Economic Development states among his findings that no country has achieved sustained economic development without investment in education. But do all types of human capital affect growth identically? And which types of schooling—secondary or tertiary—should public policy promote? The research develops an analytical framework to address these questions. It shows how the composition of human capital stock determines a country's development. Hence, promoting the “wrong” type of schooling can have little effect on development. In addition, the research helps in understanding why empirical studies have failed to find a significant relationship between schooling and growth.

No country has achieved sustained economic development without substantial investment in human capital. Motivated in part by this observation, an extensive theoretical literature has evolved to analyze the channels through which human capital can affect growth (surveys include Barro and Sala-i-Martin, 1995; and Temple, 1999). Much of this literature has emphasized the complementary

relationship between human and physical capital, noting how imbalances in these two stocks, as well as human capital externalities, can affect economic growth. However, because human capital is typically treated as a homogeneous concept, very little is understood about how different types of education—tertiary, secondary, and so forth—shape the overall development process.

Yet both the case study (World Bank, 1998) and the more formal econometric evidence suggest that important complementarities do exist between various types of human capital. And as the evidence from the Green Revolution in Asia suggests, these apparent complementarities can greatly affect development. The highly educated, such as scientists and technicians, appear to have a comparative advantage in understanding and adapting new or existing ideas into production processes. Meanwhile, some minimum level of education is required to follow the production template and successfully execute the production steps (Nelson and Phelps, 1966; Bartel and Lichtenberg, 1987; and Deolalikar and Evenson, 1994). Thus, do all types of human capital affect growth identically? Does the impact of a particular type of human capital on growth depend on the presence of other types of human capital? What are the characteristics of an optimal education policy?

To address these questions, it is necessary to develop a simple analytic framework that emphasizes the role of the composition of the human capital stock.

The framework relies on two key assumptions. First, it assumes that each skill type performs a specific but complementary function within the production process in the skilled sector. Moreover, the ideas developed by the highly skilled are assumed to be nonrival but excludable, creating demand linkages between the education types that are external to the firm. And thus, the rate of return for either skill input depends on the educational composition of the entire workforce.

Second, we have a look at demand factors within the context of endogenous schooling costs.

In many countries, the lack of access to schools and the limited supply of teachers negatively affect the schooling investment decision (Mookherjee and Ray, 2000). The argument assumes that previous enrollments—the current stock of educated labor—engender improvements in the educational infrastructure: more potential teachers, more schools, and more suitable curricula, which in turn diminish the sunk cost associated with

human capital investment and outwardly shift the supply curve for skilled labor (Foster and Rosenzweig, 1996).

Using this framework, we argue that the confluence of demand and supply forces creates a pattern of circularity between educational investment across the various skill categories and demonstrates how the composition—not the level—of the human capital stock determines the long-run steady-state level of development. For instance, consider the case of an economy with a limited number of secondary-educated labour. The inability of the economy to adequately use technology within the skilled sector because of the limited supply of secondary educated labor reduces the productivity of tertiary-educated workers and dampens the overall incentives for education investment. Moreover, the low returns to education may not justify the fixed cost required to invest in schooling, resulting in little human capital accumulation. The model also illustrates that in this case, even large investments in tertiary schooling will have little effect on long-run development, as the extra tertiary-educated skilled labor may not sufficiently raise the return to secondary education to create a self-sustaining investment cycle toward a higher steady state.

The analysis is able to isolate two important characteristics of an optimal education policy. First, education investment is ongoing over time along an optimal path, but its rate of increase diminishes. Thus, the first generation experiences the biggest increase in schooling investment. But each subsequent generation becomes better educated than its predecessor, with the difference in attainment across generations declining with time. Naturally, the cost of education increases as the enrollment level increases—the flow of investment. Also, because of diminishing marginal productivity into the unskilled sector, the shadow cost of moving labor in the skilled sector increases with attainment. Therefore, it is cost minimizing to incur the largest flow of investment initially, when the shadow cost of secondary schooling investment is at its minimum. Second, the analysis argues that because the social marginal product of labor in the skilled sector depends on the level of the complementary input, the expansion in schooling should occur across both types of schooling simultaneously.

The decentralized model also helps explain the failure of many empirical studies to observe the expected strong correlation between economic growth and human capital accumulation. Much of this research uses the average years of schooling within the population as the sole measure of educational attainment. This methodology implicitly treats each year of schooling as identical, assumes that workers of each education category are perfect substitutes for workers of other education categories, and assumes that the marginal productivity of an additional year of schooling is the same given every level of schooling attainment (Mulligan and Sala-i-Martin, 1995).

But as the model indicates, the average years of schooling can mask fundamental differences in the composition of the human capital stock; For example, countries with identical average years of schooling can converge to very different

development steady states. The model used to develop these arguments is related to the literature on costly investment across multiple sectors (Matsuyama, 1991; Krugman, 1991; and Carrington, Detragiache, and Vishwanath, 1996), as well as to literature that explores the relationship between human capital and development: Lucas (1988), Azariadis and Drazen (1990), and Romer (1990).

In conclusion:

- 1) We have argued that the composition of the educational stock plays an important role in shaping the incentives for investment in education. And unless carefully chosen, education policy can prove wasteful, leaving the potential long run development steady state unchanged.
- 2) To avoid this outcome, we have argued that the initial investments in both types of schooling should be the heaviest, and that investments should occur in both education types.
- 3) The model is helpful in interpreting the empirical literature. The many empirical studies that have failed to detect a positive correlation between the growth in average years of schooling and economic growth is unsurprising. The average years of schooling can mask potentially important differences in the composition. Examples in the text highlight this empirical difficulty.
- 4) However, the argument is quite sensitive to both the posited relationship between the two types of schooling and to the modeling of schooling costs. In the case of the former, the complementarity between high- and low-skilled workers may be quite weak as openness to trade and the flow of ideas from abroad may be more critical factors in the determination of educational investment and technical change.

- 5) Hence, it may well be that developing economies need only invest in secondary schooling, importing high-skilled education embodied in the foreign goods.
- 6) Separately, the analysis has mechanically modeled schooling costs. But the nature of the cost itself may have implications for the argument. For example, the literature (Benabou, 1993; Bond, Wang, and Yip, 1996; and Hanushek, Leung, and Yilmaz, 2001, 2002) explores different mechanisms through which schooling costs influenced the incentives for schooling investment.
- 7) The related issue of credit constraints and its impact on education investment has also been subsumed into the paper's general treatment of schooling costs.
- 8) There is still an active empirical debate over the role of schooling in growth, with Bils and Klenow (2000) suggesting the converse: growth leading to schooling.

Meanwhile, by adjusting for quality differences across country, Hanushek and Kimko (2000) find an improvement in the explanatory power of education on growth. Also, education, fertility, and growth are intimately linked. Analyzing these relationships would offer a better understanding of how the composition of human capital affects development. It is hoped that future work will address some of these issues.

Social Investment Funds, Total Factor Productivity and The Knowledge Base.

Social Investment Funds

The literature that focuses more specifically on Social Funds is both critical and favorable. A quantitative impact evaluation (The Social Funds 2000 study) was conducted by the World Bank's Social Protection Unit using micro-data from several different countries (Van Domelen, 2001). Some highlights of the findings are as follows: An analysis of data based upon randomized trials in Bolivia found that SIFs had a positive impact on educational infrastructure but did not improve educational outcomes.

However, health outcomes were improved with substantial declines in child mortality. Water projects also tended to improve access and quantity of water, but did not have an impact on water quality (Newman et. al. 2001). Similarly an impact evaluation conducted in Zambia (Chase and Sherburne-Benz, 2001) found a positive impact on education and health. An extensive impact evaluation study conducted in Nicaragua also found a pro-poor bias with significant education and water-sanitation improvements (World Bank, 2000).

Thus, the consensus view from Social Funds 2000 is that Social Funds are generally pro-poor both on the household level as well as geographically. Social Funds 2000 also reports that they are generally welfare improving. However, these quantitative studies do not have much to say on the impact of social funds on participation and collective action.

Evidence on these questions, to date, comes largely from Beneficiary Assessments, which are reports based usually upon Participatory Rural Appraisals (PRA) and

Participatory Learning and Action tools (PLA) (Chambers, 1997), usually commissioned by the headquarters of a Social Fund, on targeted communities. They are not "impact evaluations" in the sense that they almost never include a control group or counter-factual to calculate the causal impact of the intervention. In a survey of Social Fund Beneficiary Assessments Owen and Von Domelen (1998) report that they were "uniform in their finding that beneficiaries consistently felt that social fund projects reflected priority needs of the community, confirming the essentially demand-driven nature of social funds." Owen and Von Domelen also report that the Beneficiary Assessments revealed a high degree of participation in the execution of projects.

The Beneficiary Assessment for Jamaica provides a more complex picture of the relationship of the Jamaican Social Investment Fund (JSIF) to the communities it targets. Its overall findings, however, also are that JSIF has "succeeded to a large extent in its efforts to reduce poverty and increase social capital in targeted communities." Thus, the Bank's evaluations and assessments of Social Funds, on the whole, leave a favorable impression of an innovative process that not only is targeted to the poor, but is truly participatory with the capacity to build a community's capacity for collective action. This has led to sharp increases in lending to Social Fund and CDD projects, with a strong belief that CDD represents the future of development assistance.

Total Factor Productivity and The Knowledge Base

Total Factor Productivity (TFP) is defined from economic theory as follows:

The quantity of output divided by the amount of all inputs used in production. The amount of all inputs used in production can be calculated in a variety of ways. One common way is to take a geometric-weighted average of the quantities of each of

the inputs, where the weight on each input is its share in the total cost of production.

However, for the purposes of this paper we will use a more management-orientated definition:

The measurement of how well an organization utilizes all of its resources, such as capital, labor, materials, or energy, to produce its outputs.

Knowledge accumulation means either new knowledge (an increase in its quality), greater access to existing knowledge (an increase in its quantity), or both.

The theory of endogenous growth based on increasing returns to knowledge accumulation originated with Romer (1986, 1990). One of the implications of this theory is that policies affecting knowledge accumulation can have a permanent effect on the rate of economic growth.

Knowledge is assumed to differ in two ways from traditional inputs. First, it has public good characteristics; and second, new knowledge is complementary to existing knowledge so that the marginal product of additional units of knowledge increases. For instance, a new idea that is generally available raises productivity and increases market size, and this raises the return to additional ideas. And a high-knowledge economy is likely to be able to make productive use of an advanced piece of knowledge, while a knowledge-scarce economy might not.

The assumption that knowledge is a public good means that, once generated, it diffuses costlessly and is available to the entire economy. Though knowledge clearly possesses public goods characteristics, most knowledge is privately produced and is rarely a pure public good whose diffusion is instantaneous or free.

Much new knowledge is embedded in new products or in improved qualities of existing products and does not diffuse either freely or instantaneously. This is especially true for international knowledge diffusion where additional barriers exist, including tariffs and quantitative restrictions on imports, different standards and regulations, and higher communication costs (including those related to language differences).

In the case of domestic knowledge diffusion, Griliches (1957) showed for the US that the adoption of hybrid corn was gradual, and that the cumulative adoption process followed a logistic or S-function. Griliches' work spawned a number of studies that also found S-shaped patterns in other technology diffusion processes. This implies that it might take a long time until most firms adopt the new technology. For instance, Greenwood (1997) found that it took 54 years for the rate of adoption to rise from 10% to 90% of existing firms for steam locomotives and 25 years for diesels in the US, and Manuelli and Seshadri (2003) found it took 35 years for tractors.

The studies described above imply that access to knowledge is not instantaneous. Rather, its rate of adoption is subject to the usual cost-benefit considerations and typically leads to gradual adoption. Consequently, knowledge accumulation will occur through an increase in quantity (increased diffusion of existing knowledge), an increase in quality (new knowledge), or both.

In examining the impact of trade through openness with the rest of the world and the impact of donor aid and investment on countries like Jamaica; recent literature has examined the impact of trade on knowledge diffusion by constructing measures of access to foreign knowledge and estimating the latter's effect on productivity. The seminal paper is Coe and Helpman (1995). It estimates the impact on total

factor productivity (TFP) of “foreign R&D,” where foreign R&D is defined as the sum of trading partners’ R&D stocks (i.e., a measure of knowledge quality), weighted by the bilateral trade shares (a measure of knowledge quantity). Using aggregate data, Coe and Helpman (1995) and Lumenga-Neso et al. (2001) find for developed countries and Coe et al. (1997) for developing countries that foreign R&D has a significantly positive impact on TFP. Thus, TFP rises with the degree of a country’s openness and with the trading partners’ R&D stocks. Similar findings are obtained at the industry level by Keller (2002b) for developed countries and by Schiff et al. (2002) for developing countries.

Productivity In Jamaica

The concern over the low level and rate of growth of productivity (labour and total) has resulted in the drive to examine the factors affecting productivity in the Jamaican economy. Kirton (1992) reports on a case study of labour productivity enhancement in Jamaica which indicated that the following factors were important: plant reorganization and lay-out, greater involvement of supervisors in producing ideas for improvement, proper production scheduling (planned down time for maintenance, inventory stock accumulation), improved maintenance of equipment, increased investment in spare parts, training in quality management and an incentive programme to reduce absenteeism.

In an analysis of production problems in Jamaica, Shirley (1991) highlighted the following issues:

- a. Production systems in the manufacturing and, to some extent, the services sector are “ill-equipped to provide either the level of productivity, quality or flexibility to compete with international competitors using more modern systems” (p. 12).

- b. In effect, there was a lack of continuous upgrading of production systems and technology so that the state of- the-art technology used in Jamaica lagged significantly behind international standards. Technological backwardness¹ is perceived as a main source of the low level of productivity growth in Jamaica. The lack of human resources with the level of technical and problem-solving skills to underdevelopment complemented technological backwardness in explaining the low productivity growth.
- c. The sharp division between the line and staff workers in manufacturing and services enterprises which results in a lack of trust and adversarial industrial relations contribute to low productivity in Jamaica. The lack of ‘trust’ results in worker de-motivation and low levels of productivity (see Stone 1982; Carter, 1997 and Cowell, 1999).
- d. The government’s protectionist policies which shield local enterprises from external competition² and maintains a sense of complacency on the part of the management of enterprises. Enterprises are unable to engage in international benchmarking.

Ventura (1992) also highlights the lack of modern technology and the investment in human resources development as the main factors affecting productivity in Jamaica. He further notes that the educational and training system has not adequately addressed the science and technology needs of the country. There has

1 Even though we have tremendous access now how effectively are we using the new technology to enhance productivity and in particular TFP?

2 Although this has changed somewhat since this study the lag in the knowledge base is self evident.

been a heavy reliance on imported technology, which the local workforce is poorly equipped to handle³.

Stone (1992) points to a number of factors which can obstruct the implementation of productivity policies in Jamaica. These factors include:

- a. a poor response by the private sector to productivity incentives because of their lack of confidence in an uncertain economic environment;
- b. inappropriate investment of profits by the private sector which has been myopic and interested in quick high returns. A classic example is the boom in the financial sector in the 1980/90s relative to the poor performance in the real sector of the economy⁴;
- c. the deep distrust between workers and management which demotivates workers;
- d. incentives offered are usually not large enough to have an impact on productivity;
- e. work norms and management styles are deeply embedded in work cultures and are constantly being fed by the non-work environment thus making it difficult to effect change in the workplace. Social relationships based on class, colour, ethnicity, residential location and education spill over from the wider society into the workplace;
- f. the competitive environment is blocked by unequal economic power between new and old capitalists and by the existence of powerful business groups who control the market place. Barriers to entry are created thus excluding potentially productive operators.

These powerful enterprises can engage in lobbying and rent-seeking behaviour in order to maintain their monopolistic control.

³ This ant-thesis is clearly evident in Jamaica.

⁴ History would appear to have repeated it self again.

Conclusion

In the past decade or so, much research has been conducted on productivity-led economic growth and its determinants. A major reason is the widespread belief that economic growth due to rapid factor accumulation is subject to diminishing returns, and hence is not sustainable. Recently, there has been a growing interest in the contribution of knowledge to total factor productivity growth, and consequently to sustainable long term economic development.

Economic research on knowledge comes in various forms. For example, there has been much research on the importance of human capital, in terms of education and/or skills, to economic growth. Similarly, research has been conducted on innovation and research and development (R&D) that lead to new technology, which ultimately leads to increases in output per capita. In addition, there has been some focus on the effects of information and communication technologies (ICTs) on the flow of knowledge and information and its ultimate effect on economic growth. In view of the above, one seeks to empirically determine the effects of various aspects of knowledge on economic growth, and by doing so, it dwells on the concept of the knowledge economy, an economy in which knowledge acts as the main engine of growth.

We postulate that there exist four preconditions that lead to knowledge becoming an effective engine of growth. These four preconditions, or four pillars of the knowledge economy, are:

An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.

An educated and skilled population to create, share, and use knowledge well.

A dynamic information infrastructure to facilitate the effective communication,

dissemination, and processing of information.

An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new technology.

In essence, we postulate that the amount of knowledge and how it is used are key determinants of total factor productivity. Strengthening the above four pillars of the knowledge economy will lead to an increase in the quantity and quality of the pool of knowledge available for economic production. This will consequently increase productivity and thus economic growth.

Sovereign Debt Structure for Crisis Prevention In Jamaica

The present government and in particular the Minister of Finance, The Hon. Omar Davies, has been lambasted for running up an excessive mountain of debt in Jamaica. There has been some concerns about debt default in the long term and because of the debt we are unable to be provided with basic services, the one most lamented recently is Fire Services. What is the alternative?

A Country's debt structure has an important influence on its economic performance and vulnerability to crises. In particular, excessive reliance by emerging market and developing countries on short-term debt and foreign-currency debt exposes them to risks of rollover crises and sharp increases in the debt burden resulting from exchange rate changes. Of course, risky debt structures are often themselves symptoms of underlying institutional and policy weaknesses that need to be convincingly addressed. But beyond this, it has been argued that there are valuable lessons for improving sovereign debt structures to be extracted from liability structures in the corporate sector. In particular, debt with different degrees of seniority, and instruments with equity-like features, could help to reduce the vulnerabilities inherent in current sovereign debt structures. **Three key messages emerge from the analysis:**

First, credibility of fiscal and monetary policies is a central prerequisite to buttress investors' willingness to hold long-term local-currency bonds. Credibility in turn depends on both the quality of institutions and a reputation for sound policy making.

Without supporting reforms, building such a reputation can take many years, but the combination of macroeconomic stabilization with institutional and structural reforms can accelerate this process, as demonstrated by the experience of several emerging market countries—including Chile, Israel, Mexico and Poland—in the last decade.

Soon after bringing their inflation rates into the single digits and undertaking reforms of their monetary and fiscal frameworks, these countries successfully issued unindexed local-currency bonds with medium-term maturities. While initially relying on inflation-indexed bonds—which played a helpful and important role in the transition—most of these countries graduated to routinely issuing non-indexed long term local-currency debt. This suggests that emerging market and developing countries can improve their debt structures relatively quickly, as long as they show clear commitment to sound policies.

Second, progress in overcoming the problem of debt dilution in the sovereign context could reduce the cost of borrowing and increase market access for low-debt countries; and help prevent crises that result from over borrowing and risky debt structures in high-debt countries. In the corporate context, debt dilution is addressed through methods that include debt covenants and explicit seniority. There are strong arguments for consideration of analogous innovations in the sovereign context, in order to curb incentives for over borrowing, reduce costs of borrowing at low levels of debt, and limit the bias toward risky types of debt, such as short-term debt. This said, measures that reduce the scope for debt dilution are also likely to have some drawbacks: for example, making borrowing harder at high levels of debt may not always be desirable, especially if it exacerbates the risk of liquidity crises. In addition, some open questions remain, including the consequences of explicit legal seniority for crisis resolution and potential legal

obstacles to the implementation of first-in-time seniority. While this cautions against making strong policy recommendations at the present time, the possible benefits of explicit seniority in the sovereign context seem to warrant further attention to the issue.

Third, it is also argued that instruments with equity-like features, which provide for lower payments in the event of adverse shocks and weak economic performance, could help sovereigns to improve debt sustainability and international risk sharing.

Disaster insurance could benefit small countries prone to frequent natural disasters. Indexation to commodity prices might confer benefits for commodity producing countries. GDP-indexed bonds would likely provide substantial insurance benefits to a broader range of countries, including the advanced countries and the main emerging markets, though they present greater implementation challenges. In principle, GDP-indexed bonds could be issued relatively quickly, especially by countries with trusted and independent statistical offices. Whether these bonds would attract sufficient investor interest at reasonable cost to borrowing countries remains an open, empirical, question. In particular, potential concerns on the part of investors regarding complexities and difficulties in pricing would likely need to be addressed. Market acceptance and the requisite liquidity could be sought through international coordination or a large swap, possibly in the context of a restructuring. Countries could seek to ensure the independence of their statistical agencies, and efforts on technical assistance could be stepped up in this area. More ambitiously, methods could be sought whereby outside parties could provide an independent view on whether countries' data are being systematically distorted.

The analysis here suggests that progress in ameliorating debt structures could yield substantial benefits in economic performance and international risk-sharing, while reducing the frequency of crises and the damage they entail. While sound policies remain a precondition for securing better sovereign debt structures, renewed attention to innovative structures that may have become possible as a result of the increased sophistication of financial markets could be well rewarded.

SUGAR MUST SWEET EVERYONE, NOT ONLY A FEW

The Reform of the EU sugar regime will affect not only the EU member states and candidates, but also countries that are associated with the EU through the preferential, regional, and multilateral trade agreements. The liberalization of the EU sugar regime would benefit only a few countries, especially Brazil, Thailand, Australia, or South Africa. The losers would be the ACP countries (which includes Jamaica) and the world's poorest countries because these countries would not be able to compete due to high production costs or scarcity of resources available for establishing the necessary infrastructure. As a result, the rural poor will incur the bulk of the burden of structural change to the EU sugar policy. More importantly, this will be working against the United Nations Millennium Development Goal of reducing poverty and hunger, by 2015 in Countries like Jamaica.

The European Union (EU) is a major participant in the world sugar market. In 1999, the EU was placed second in the ranking of all the major producers, exporters and importers in the world. The EU, Brazil, Australia, Thailand and Cuba accounted for about 70% of world exports in 1999. The EU and Brazil are the dominators in the world sugar trade, being the top producers and exporters in the world. Although the EU is also a major importer of sugar, sugar imports in Brazil are negligible. The EU is unique in being both a major exporter of white sugar and an importer of raw sugar in the world market.

The dominant role of the EU in the world sugar market is the result of the high level of support the EU is providing to its sugar sector, compared with the member countries of the World Trade Organisation (WTO). The EU uses export subsidies

to bridge the gap between the high internal EU market price and the significantly lower world market price. In the previous years, the world market for sugar has been characterized by considerable overproduction and a rising level of stocks. The ratio of stocks as a percentage of world sugar consumption escalated from 35.92% in 1992/1993 to 48.81% in 2001/2002. World stocks are now at a high level, which has had the effect of depressing prices. World sugar production in 2001/2002 was 136 million tonnes, with consumption at 134 million tonnes. In 2000/2001, world sugar production was 128 million tonnes with consumption at 130 million tonnes. Approximately 28% of world sugar production is traded in the world market whilst the balance is consumed in the country of origin. Global sugar consumption continues to increase at an average of 2% per annum.

The EU Common Market Organisation (CMO) of sugar has established minimum support prices for sugar guaranteed by an intervention purchase system. A production quota system was established to limit the total quantity eligible for price support. The EU sugar producers (growers and processors jointly) are responsible for paying the full costs to the EU budget of surplus quota-sugar disposal through the producer levies.

There are two types of quotas: A and B. The major difference between A and B quota sugar is the level of imposed producer levies. Only quota-sugar can be sold in the EU and is eligible for price support through the intervention mechanism and export refunds.

Sugar produced in excess of the A and B quotas is called C-sugar and cannot be marketed in the EU. C-sugar has to be sold on the world market without the support of export refunds/export subsidies. Thus, the quota system limits the supply of sugar in the EU internal market (CAP Monitor).

The EU internal market is insulated from the world sugar market through a system of import duties and export refunds. The CMO of sugar supports producer prices at levels above world market prices, stimulating production in the EU and resulting in exportable surpluses of sugar. Consequently, the EU has been distorting trade flows by disposing the sugar surpluses to the world market with export subsidies.

Although the CMO of sugar exhibits a high degree of protectionism, the EU has granted a whole array of bilateral trade concessions to certain developing countries since its creation. Over the years, the EU has established a complex system of trade arrangements, which is reflected in the complex network of discriminatory tariffs and through generalised, country-specific or region-specific trade preferences. Thus, the EU sugar trade policy has deviated widely from the non-discrimination principle of the WTO, and it applies different policies to different regions and trading blocs. These country-specific trade concessions reflect in part the multiplicity of the EU's foreign policy interests, ranging from old colonial responsibilities to military-strategic considerations (Harris and Tangermann 1993).

Currently, the EU is engaged in negotiating or implementing trade agreements that are unilateral, bilateral, regional and multilateral in nature. In addition, the EU enlargement process will cause trade effects that will have important interactions with other trade agreements as well.

Ellen Huan-Niemi (2003) in her working paper: THE IMPACT OF PREFERENTIAL, REGIONAL AND MULTILATERAL TRADE AGREEMENTS: A CASE STUDY OF THE EU SUGAR REGIME, Research out of Helsinki, Finland almost a year ago, in 2003 not highlighted in Jamaica could be very instructive, she draws the following conclusions:

1) The reform of the EU sugar regime will affect not only the EU member states and candidates, but also countries that are associated with the EU through the preferential, regional and multilateral trade agreements. For several decades, the EU has supported and protected the EU sugar sector. Sugar from developing countries will not be able to enter the EU sugar market without preferential trade agreements.

2) In the EU sugar regime, the unique features of the trade concessions are that sugar under preferential import quotas can enter the EU market duty-free and the price paid for sugar equals to the high EU price for sugar. One crucial issue for the ACPs is whether the EU will continue the ACP/EU Sugar Protocol after the end of the Cotonou Agreement in 2008. The Sugar Protocol explicitly states that the EU undertakes, for an 'indefinite period', to purchase and import, at guaranteed prices, specific quantities of cane sugar that originate from the ACPs. But the EU Commission is currently examining options for reforming the sugar regime, most of which involve substantial cuts in the EU's guaranteed price for sugar.

3) These price cuts would inevitably be reflected in the prices paid to the ACP producers. 4) The EU Commission has indicated to the sugar producers in ACPs that the inflated prices they receive under the Sugar Protocol are unsustainable in the long term.

5) Similarly, the EU's initiative to eliminate duties and quotas for sugar imports from the LDCs (Lesser Developed Countries) is pressuring the EU to reform the sugar sector in order to avoid a major influx of sugar coming from the LDCs.

6) The main questions are what the supply capacity of the LDCs will be and how the 'rules of origin' will affect the amount of sugar entering the EU market. Moreover, the everything but Arms trade concession allows accumulation among

the LDCs and ASEAN (Association Of South East Asian Nations) SAARC (South Asian Association Of Regional Cooperation) and the EU.

7) The lucrative EU sugar market will attract both genuine and fraudulent trade in sugar because of the high EU price for sugar compared with the world market price.

8) Both the ‘safeguard cases’ involving the OCTs (Overseas Countries & Territories) and western Balkan countries have shown that the EU Commission is willing to make use of the safeguard measures stipulated in the preferential market access agreements.

9) It remains to be seen whether the EU Commission is going to impose the safeguard measures on the imports of duty-free sugar from the LDCs or if there will be a flood of sugar from LDCs after 2009.

10) The pressure from the WTO multilateral agreement to reduce import tariffs will instigate reform in the high support price for EU sugar. The EU will not be able to keep its border protection for sugar without lowering the support price for sugar. In addition, the use of export subsidies may be substantially reduced or eliminated, while quota sugar exports are heavily dependent on export subsidies. Thus, exports of quota-sugar to the world market will not be possible without export subsidies, owing to the high EU price for sugar. Even the exports of non-quota sugar (C-sugar) are being challenged in the WTO because of the issue of cross-subsidisation from the high EU price for quota sugar (which the present ruling speaks to).

In summarizing, the sugar trading activities of the Caribbean Sugar Industry and evaluating the potential impact of changes in preferential trading arrangements with the European Union (EU) on the six countries that make up the Sugar

Association of the Caribbean, namely: Jamaica, Barbados, Belize, Guyana, St. Kitts-Nevis, and Trinidad & Tobago, projected policy coming out of the European Union requires pro active action on the part of these producers.

The trading policies that govern sugar trade between these countries and developed countries such as the EU, the United States of America (US) need to be re written for the needs and wants of developing countries and not the Developed countries.

The analysis shows that modest decreases in prices to Caribbean sugar producers would not result in huge changes in the structure of the Caribbean sugar industry since responses of production, consumption, imports and exports are inelastic to prices changes in the short-run. This could be due of asset fixity within the industry. This industry requires huge capital investments; thus, after these investments are made producers are forced to operate at full capacity to minimize fix costs. Secondly, the industry within this region is a mass employer of labor and a huge contributor to their country's Gross Domestic Product (GDP); therefore, any major changes with this industry could result in massive social instability.

One proactive approach that CARICOM Sugar Producers could look at is where they can rationalise their industries, where they can add value, whether there are opportunities in refining, or producing bioethanol or looking at other value added applications in the context of rum, molasses production.

Whatever they plan to do must be done now in order maintain economic stability.

The Hospital Foundation Trust: A Local Community Initiative

.....In broad terms, the Region's health situation can be viewed as a reflection of the dual impact of the demographic changes and shifts in epidemiological profiles. It also mirrors the effectiveness of health policies and the performance of the health systems. Some health problems still remain unresolved and new ones have emerged.

Moreover, health problems are unequally distributed across the population and have differential effects on various groups. The health gains that have accumulated at the beginning of the 21st century are, in great measure, a tribute to the capacity of the countries to pursue the goal of "Health for All by the Year 2000," recognizing that it remains valid in the Region of the Americas even today.....

George A. O. Alleyne

In view of the Local Government Reform Programme (LGRP) which has as its major objective the involvement of local communities; and in addition, the limited funds we have as a nation to spend on health services; the implementation of **Hospital Foundation Trusts** across Jamaica, starting in the parish capitals could be a policy initiative that could bring serious benefits to local communities.

Local communities and staff would be given a bigger say in managing hospital services in their area.

Trusts will establish stronger connections between local hospitals and their local communities. Local communities will have social ownership of their Foundation Trust. Those living in communities served by a hospital of a Foundation Trust will be invited to become a member. The membership community of each Foundation Trust will be made up of local people, patients and carers and staff.

Members will be able to stand and vote in elections for Governors of the Trust. Governors will be responsible for representing the interests of the members and partner organisations in the local health economy in the governance of the Foundation Trust. This sort of public ownership and accountability will ensure hospital services more accurately reflect the needs and expectations of local people.

Foundation Trusts will not work in isolation. They will be bound in law to work closely with partner organisations in their local area. Health care planning will continue to involve the whole National Health Service community, but with more freedom to set up partnerships between all healthcare providers.

Foundation Trusts will operate within a clear accountability framework. They will not be left to sink or swim, allowed to ‘cherry pick’ services or set loose to pursue organisational goals at the expense of the needs of their local health community.

The achievement of the Millennium Development Goals is of prime importance, their achievement means improving the health and quality of life of the poor, which is a fundamental goal of economic development. While there have been achievements, differences and disparities exist between countries, and several are

lagging behind, this region is one of the most affected by the HIV/AIDS pandemic; and there has been a resurgence of tuberculosis and a rise in obesity and non-communicable diseases such as diabetes and hypertension. For Jamaica to become a developed country we need to address these problems. The establishment of Hospital Foundation Trusts in Jamaica must be a step in the right direction policy wise.

THE NEED FOR POLICE REFORM: A NEW STRUCTURE FOR POLICING IN JAMAICA.

I listened with interest to an interview on Monday afternoon, July 12 on Nationwide with regards to recent crime problems in Montego Bay, St James. I noted with serious concern the lamentations of the Police, Politicians, civil society and the business community in Montego Bay speaking to a normative approach, what should be, rather than what should be done.

I was then struck by a bolt of lightning from up above and it dawned on me perhaps with our limited resources, there should be a reform of the Jamaica Constabulary Force along the lines of a new structure and just, perhaps, this could be an attempt to resolve the problem of crime and violence in Jamaica in the medium to long term.

THE ROLE OF THE MINISTER

The Minister with responsibility for National Security of the Nation must be answerable to the Parliament and the public for the provision of an efficient and effective police service.

MINISTER'S PERFORMANCE

- 1) The Minister will set strategic direction for the service by objectives, or Ministerial Priorities. These Priorities represent the major public concerns,

which the service should be tackling nation-wide. They are designed to concentrate efforts to improve performance in these key areas and are selected after consultation with representatives of police authorities and chief officers.

- 2) Monitors performance by means of the Ministerial Priorities and associated performance indicators, policing plans, annual reports.

FUNDING

The Minister is answerable to Parliament for expenditure on the police service.

The Minister will determine the total grant and its allocation to police authorities, using a funding formula.

The police funding formula allocates money to forces on the basis of assessment of the relative needs for policing in their areas. The formula is based on an analysis of the activities carried out by the police and socio-economic data.

Allocated funds are paid directly to police authorities.

Police authorities are responsible for setting the budgets and can raise extra tax should they wish to spend above the level assessed as necessary for their area.

In addition, local councils are free to contribute extra funds to police authorities should they wish to do so.

PARISH POLICE COMMISSIONERS (PPC)

PPC's are operationally independent. The PPC is responsible for the direction and control of the force, including civilian staff, and financial management.

PARISH POLICE COMMISSIONERS (PPC) RESPONSIBILITIES

Prepares a draft annual policing plan, in consultation with the police authority. The annual policing plan is issued by the police authority.

Must have regard to the annual policing plan in management of operational policing, but may depart from it if operationally necessary and may expect to be called upon by the police authority to explain any significant departure.

Produces a report to the police authority at the end of each financial year on the policing of the area during the year.

THE ASSOCIATION OF PARISH POLICE COMMISSIONERS (APPC)

The membership will be comprised of police chiefs and assistant chiefs.

The association will have the role in developing policing policy, carrying out research and publishing guidance for Chief Officers.

The association will be funded by a combination of grants from the Ministry of National Security, Contributions, Subscriptions and Annual Fundraisers.

PARISH POLICE AUTHORITIES (PPA)

Parish Police authorities will be freestanding corporate bodies, independent and separate from local councils.

The composition of the PPA will be as follows:

5 Councillors from the parish, 3 Magistrates and 5 Independent members.

The Minister may increase the size of the police authority if appropriate.

Councillor members must always comprise a majority of one, and if an increase is agreed, the number of independent members must also be increased.

The appointment of the members will be for a period of 4 years

Councillor members are appointed by the relevant council.

Appointments must ensure, as far as practicable, that political parties are represented on the police authority so as to reflect the proportion of their members on the council or councils (including independent councillors).

Magistrate members are appointed by the local magistrates panel or Magistrates' Courts Committee.

The role of the Parish Police Authority (PPA) is to maintain an efficient and effective police force for the area.

Specific responsibilities will include but not limited to:

Consulting the local community about their concerns, to identify local objectives

Setting targets to support local objectives and Ministerial priorities.

Publishing an annual policing plan setting out how the community will be policed in the year ahead – including how objectives are to be met and how available resources are to be used. The plan is drafted by the Parish Police Commissioner, who must be consulted about any changes to the draft, but ownership of the plan rests with the police authority.

Reporting back to the community at the end of the year on the extent to which the annual plan has been delivered.

Securing, under Best Value, a continuous improvement in the provision of police services. Producing a Best Value performance plan, incorporated in the annual policing plan, sets out a programme of Best Value reviews by which authorities must review fundamentally the performance of all services over a five-year period.

The Code of Practice on Financial Management to encourage police authorities to delegate financial management to the Parish Police Commissioner.

THE ASSOCIATION OF POLICE AUTHORITIES

The Association of Police Authorities (APA) to be set up to represent police authorities in Jamaica and to strengthen and support the role of police authorities locally.

The APA represents police authorities in consultation on police matters, and supports police authorities in their work by providing training, publications and research.

The APA will be funded by subscription from member authorities.

STANDARDS UNIT

The Standards Unit will exist to deliver the Government's commitment to raise standards and improve operational performance in the police and in crime reduction generally in order to maintain and enhance public satisfaction with policing in their area.

Its core objective will be to identify and disseminate best practice in the prevention, detection and apprehension of crime in all forces in order to reduce crime and disorder as well as the fear of crime.

The Unit will operate as follows:

Work with forces and Command Units to ensure the most effective use of intelligence, detection and successful prosecution procedures.

Identify Units or forces performing below their best, based on reports, statistical information, or particular cases of concern.

Engage directly with the Units or force to establish the nature of the problems, the extent to which best practice may be lacking, and the remedial action required.

Engage similarly with other local agencies to ensure their effective contribution, including through Crime and Disorder Reduction Partnerships, where it is apparent that this is the key to police success in tackling crime and disorder at force level and below.

Identify where in exceptional circumstances combined cross cutting measures engaging other agencies are required to focus on and achieve early change within a specific geographic area or unit boundary.

Have a capacity to provide short term funding to support the remedial action it has identified and which could not otherwise be undertaken.

Identify issues, which raise policy, technical or legal questions for the Ministry of National security to address.

The Marginalization of Intellectual Thought In Jamaica

**Bomb a drop, scobaay away, bomb a drop Run for cover save Yuh mama
Yuh too bad mind (rept 3) alright then Christian dip (rept.4) Shingle dips
(rept.4) inna spirit (rept.2) praise the lord (rept.2).....**

O'Neil Bryan (AKA Elephant Man)

There are those of us among the **Chosen Few** in Jamaica who have been given the opportunity of tertiary education. The landscape of the Plantation (Now Hyper plantation) has changed. But has this **Chosen Few** realized for the 80% investment a good ROI? (Return On Investment) Have we exercised the necessary altruism in order to aid 1) Community development 2) Economic Development or have we said I have reached, I do not see why anyone else should reach and as such let me practice Compartmentalization and take a blow torch and seal Queens Gate (the Mona Road entrance to the UWI Mona Campus) so that in the Knowledge based economy of 21st Century Jamaica, I will be Kingpin?

I say to this prevalent thinking that has arisen from the graduates of a certain Tertiary institution in Jamaica “ **Bun Bad Mind.**”

Case Study 1: Bugle Boy, Bog Walk, St. Catherine

Bugle Boy was always an opportunist on the campus, even when he had the information he had found to assist others to pass the exam; he would always say he did not know. When the pamphlet dropped out of his folder, he would laugh pick it up and walk off.

Bugle boy is doing well in New York, helps no one has forgotten Jamaica and wont pay his student loan and those who had guaranteed his loan to save face paid it off.

Case Study 2: Stammer, Morant Bay, St. Thomas

Stammer was always a very ambitious and “creative person”. But, ambition kills and it can also cure. Stammer who holds BSC, MSC and soon a Phd (soon) when you call him to serve, he says I have no time for that do not call me back. I have arrived and I do not need you all again. Stammer recently was promoted to a very high position in corporate Jamaica featured in many local papers and on television. His authoritarian leadership style we feel will be his nemesis. He also is a disciple of the Blow Torch Theory (BTT). We wish him well. He will need it.

Case Study 3: Cowshort, Lionel Town, Clarendon

Cowshort always had a point to prove. Which makes him a dangerous person. He will join your group pledge loyalty, pretend to be with the team, but when the team loses, he says he was not really a member of the team. He then tries to court the new team, but Cowshort because he is well known in corporate Jamaica to be of questionable loyalty has fallen between two stools and has become overtly aggressive and still remains a good book worm still unable to link the theory to the praxis. He holds a Double masters and a PhD.

These three cases may be extreme but it speaks to a few things:

The culture of altruism has died or has been redefined.

This Blow Torch Theory (BTT) dysfunctionate thinking of a few has led civil society to draw the conclusion that subsidized Tertiary Education is a waste of time.

Why should the bad attitude of a few make life unbearable for those to come?

When we were given free education to the tertiary level although that has changed as a result of economic circumstances, this was never the desired end product.

Clearly, we are not applying what we have been costly educated to do.

Hence we could draw the conclusion: **The Marginalization of Intellectual Thought In Jamaica** is self-evident, at least for a few.

THE SPECTER OF AN IGNORANT OR INDIFFERENT POLITICIAN HAS LONG HAUNTED DEMOCRACY.

My recommendation is this: politicians ought, at this stage of history in Jamaica, to seize aggressively all opportunities for asserting their own ignorance. Especially those who have recently arrived and whose grasp of effective Political administration to seriously enhance their own positions in maintaining political patrimony is strongly self-evident; especially those in certain political parties who through the BGD (Bullets, Guns and Destruction) theory (a theory not new which goes back to the time of Attila the Hun) have come to power and now are attempting to re define policy and political theory along a type of anti thesis apriori approach (donkey Logic) and promote it as a winning formula.

This “AIRHEAD” Thinking can possible win elections, but those who practice it when they come to power, their opponents use Asymmetric Information Politician Capture Theory (AIPCT) against them and bring them to ground zero. We only have to examine our political landscape within the last six to eights to see this in action.

There are some politicians in Jamaica after they win elections they remain in the Campaign mode. From a party perspective this may be a good approach although costly; but their political ignorance of public administration, how government should run effectively and efficiently is sadly lacking as they know how to win votes and elections but their political ignorance in converting this political capital in to serious political patrimony is seriously lacking. This leads to one-term governments and some are thrown out of office before their term ends. In being thrown out of power they blame their opponents for undermining them. Clearly they themselves through Public Policy Ignorance (PPI) are victims of their own over all political ignorance.

I start from the premise that politicians in Jamaica have a vast fund of ignorance to exploit. There are important items of factual information they do not have, there are critical relationships they do not understand, and there are potentialities for the future that they are not aware of.

Politicians are generally well aware of the limitations of their knowledge. And they do not ordinarily conceal it from the non-politicians with whom they deal. But their statements of their own ignorance tend to be apologetic confessions, whereas my recommendation is that they should be aggressive assertions.

The inability of politicians to know certain important things is itself a fact of great significance. Politicians are probably the people best qualified to analyze the implications, for company action and for government policy, of their own ignorance.

They should strive to make their lack of knowledge a part of the positive content of decision-making, rather than a sad apologetic footnote to it. This is what I mean by an aggressive assertion of ignorance.

I have in past writings occasionally ventured the opinion that much of the Political posturing that is done in the ordinary way is not only useless but also harmful. Decision-making is an inescapable necessity in government operations. Any decision has to be made in the light of relevant facts, which are known, but also in recognition of what is unknown and perhaps unknowable. The worst thing the politician can do for people is to obscure the line between what is known and what is unknown.

This is almost exactly what is done in the customary procedures of political posturing. The Politician, fully aware of his own limitations, feels obliged simply

"to do the best he can" in providing forecasts of anything his principals want forecasted.

I also believe that a more aggressive assertion by politicians of ignorance is desirable in the formulation of national economic policies. The fine-tuning approach to monetary and fiscal policy would, of course, be fully justified if their knowledge of the changing economic situation were always complete. But if their explanations of the limitations in their knowledge are apologetic, rather than aggressive, we are not likely to deter policy makers from the fine-tuning approach.

An aggressive assertion of their ignorance, and an analytic exploration of its consequences, leads however to a rejection of the fine-tuning approach altogether. The decision-making strategy which takes full account of ignorance leads in the direction of maintaining a relatively steady posture in fiscal and monetary policy.

National policy in regard to the crime situation in Jamaica is a prime example of how an aggressive assertion of ignorance can be of great help. Their own fund of ignorance on it is so large. Furthermore, I am proud of the fact that I came by my ignorance the hard way-through long study which revealed that most of what I knew about crime and violence in Jamaica wasn't so. An aggressive assertion of ignorance on the crime and violence problem (whatever that may be) would have led to better national policy decisions in that area than we have in fact had.

One logical reaction from Politicians to my emphasis on ignorance may be to advocate more and bigger programs of research to fill in the knowledge gaps. I don't mean to argue against this approach but I do have reservations about its

fruitfulness. Much of what we would like to know is, I think, not only unknown in practice but also unknowable in principle.

The reason I say this is that there seems to me to be an inherent contradiction in the belief that we ever can know certain things. For example, if we ever became able to predict the large and sudden changes in the inventory situation that are occasionally recorded, they would cease to happen.

Perhaps what is needed in politics in Jamaica is an equivalent of the Heisenberg principle of uncertainty in physics. This kind of precise definition of what we can know and can't know would, I believe, be a most notable contribution to the science and a most helpful guide to practitioners of the art of politics.

All this shouldn't be too shocking and it may even be trite. If politicians in Jamaica really knew what they are supposed (by others and sometimes by themselves) to know, there would be a good case for a centrally planned economy. We can save society from that fate by asserting our ignorance aggressively.

N.B. This is dedicated to a Politician friend who has become power drunk and whose IGNORANCE of important policy linkages at the local and national levels has become parochial, even though he is tertiary educated.

TRADE UNIONS IN JAMAICA AND THE SWORD OF JUSTICE

I watched on television recently an officer of the JCTU explaining to the nation about the pending memorandum of understanding between the workers and the government of Jamaica and he emphasized it was not a wage freeze the unions were speaking to but a wage restriction. In hearing this statement I reflected on

The Role Of Labour Unions In A Changing World Environment: A Comparative Analysis.

Trade unions have always had two faces, sword of justice and vested interest.

The balance between these two features can change over time, however. It seems clear that in many countries, unions have lately come to be widely perceived as conservative institutions, primarily concerned to defend the relative advantages of a minority of the working population. One of the challenges which confront trade unionism in the twenty-first century is therefore to revive, and to redefine, the role as sword of justice. Clearly the

JCTU has redefined its role as the sword of justice as to do otherwise is to fall prey to rapid globalization and become an endangered species.

Trade unions have been important institutions of industrial society; they have helped deliver significant outcomes in terms of improved living standards, equity and justice to workers all over the world. However, at the end of the twentieth century, unions faced a situation marked by the universal trend towards greater liberalization of economic and political regimes. The changing environment requires new approaches and strategies on the part of unions if they are to remain major social actors contributing to dynamic and equitable growth. It is argued that

liberalization/globalization, which brings formidable challenges to unions, also provides them with opportunities to play a far more effective and politically important role in society.

There are three sets of issues, which should figure in a discussion of the changing role of trade unions. These are: (i) the traditional role of unions; (ii) the changing environment in the world of work and its impact on unions; and (iii) union responses in terms of new approaches and strategies. The different economic, political and geographic settings of unions around the world are given special attention.

The issues raised have been assembled with the following objectives: (i) to identify the gaps in knowledge concerning the responses of unions in different environments; (ii) to define an agenda for further research highlighting the contribution of labour and unions to society; and (iii) to set the terms for policy debates involving unions and researchers on promising approaches for the future. The above objectives have been incorporated into a programme on “Organized labour in the 21st century”, undertaken by the International Institute for Labour Studies of the International Labour Organization. The issues listed above are being investigated within the framework of studies organized by the Institute in different countries. Based on the findings of these studies, which are at various stages of completion, there are many challenges relevant to the future of labour movements, with special reference to developing countries such as Jamaica.

In the context of Unions Challenge and response, summarized, fall under the following areas:

- 1) Membership Campaigns
- 2) Strategies Towards Traditional Constituents
- 3) Non Traditional Constituents

- 4) Trade Union structures
- 5) Decentralized Bargaining
- 6) Union Structures At The Lower End
- 7) Collective Action And Institutional Benefits
- 8) Correcting Inequalities
- 9) Building Democratic Institutions

Finally for Labour Unions to survive in the 21st Century the following have to be seriously looked at:

- 1) Union Flexibility
- 2) Job Security
- 3) The New Mindset
- 4) The New Working Environment

Old Trade Unions vs. New Trade Unions On The Use Of Community

WILL JAMAICA MEET THE MDG 2015 DEADLINE?

Poor people in a large number of countries face little hope of emerging from lives of poverty and deprivation unless all actors in the development field-including governments in poor and rich countries alike-take urgent action now to address the root causes of poverty, according to a new report from the World Bank and the International Monetary Fund. WILL JAMAICA MEET THE MILLENNIUM DEVELOPMENT GOALS 2015 DEADLINE?

There is a tendency in Jamaica and to a lesser extent in the Caribbean to put the cart in front of the horse and then when the desired results do not occur especially in terms of policy implementation we wonder why? We also have a tendency to be “waggonist” for socio cultural reasons but forget the economics of the situation. In terms of development, in the EU (European Union) countries do not gain entry because we are all European but rather the level of development of the individual member country and required criteria whether they are social, political or economic. As such, Spain and Portugal were last to join the original 15 member EU regional group. There is an important lesson here that must not be overlooked as we move forward as a CARICOM nation.

Jamaica has up to December 31,2004 to implement a clear plan of action for Jamaica (I hope due to the Access to Information Bill we as a people will have an input) as a nation to attempt to achieve the following by January 1, 2015:

- **HALVE EXTREME POVERTY AND HUNGER**

1.2 billion people still live on less than \$1 a day. But 43 countries, with more than 60 per cent of the world’s people, have already met or are on track to meet the goal of cutting hunger in half by 2015.

- **ACHIEVE UNIVERSAL PRIMARY EDUCATION**

113 million children do not attend school, but this goal is within reach; India, for example, should have 95 per cent of its children in school by 2005.

- **E M P O W E R W O M E N A N D P R O M O T E E Q U A L I T Y B E T W E E N W O M E N A N D M E N**

Two-thirds of the world's illiterates are women, and 80 per cent of its refugees are women and children. Since the 1997 Micro credit Summit, progress has been made in reaching and empowering poor women, nearly 19 million in 2000 alone.

- **REDUCE UNDER-FIVE MORTALITY BY TWOTHIRDS**

11 million young children die every year, but that number is down from 15 million in 1980.

- **REDUCE MATERNAL MORTALITY BY THREEQUARTERS**

In the developing world, the risk of dying in childbirth is one in 48. But virtually all countries now have safe motherhood programmes and are poised for progress.

- **REVERSE THE SPREAD OF DISEASES, ESPECIALLY HIV/AIDS AND MALARIA**

Killer diseases have erased a generation of development gains. Countries like Brazil, Senegal, Thailand and Uganda have shown that we can stop HIV in its tracks.

- **ENSURE ENVIRONMENTAL SUSTAINABILITY**

More than one billion people still lack access to safe drinking water; however, during the 1990s, nearly one billion people gained access to safe water and as many to sanitation.

- **CREATE A GLOBAL PARTNERSHIP FOR DEVELOPMENT, WITH TARGETS FOR AID, TRADE AND DEBT RELIEF**

Too many developing countries are spending more on debt service than on social services. New aid commitments made in the/ first half of 2002 alone, though, will reach an additional \$12 billion per year by 2006.

What would be ideal if the government ministry with responsibility, the Office of the Prime Minister (OPM) gives us a detailed update instead of individual ministers on numerous platforms hinting at the achievements of the MDG implementation.

JAMAICAN WOMEN AND PARLIAMENTARY REPRESENTATION

Women in representational politics in Jamaica is not a modern issue, but goes back to 1944. For the purpose of this paper, representation refers to a member of parliament elected by the people.

At present in Jamaica we have as female members of parliament: **Portia Simpson-Miller, Sharon Hay-Webster, Maxine Henry Wilson, Aloun N'dombet Assamba, Olivia 'Babsy' Grange, Verna Parchment and Shahine Robinson a total of seven out of sixty, eleven percent.**

In all political parties in Jamaica, women have played a pivotal role. However, when they acquire top posts in government and in political parties, they have a tendency to surround themselves with men who eventually undermine them and when their positions are challenged these wimps and lackey men pull their political patrimony and how the mighty fall, sometimes almost through the concrete pavement. The lesson here is that women tend to empower the wrong people and as such their numbers have not grown say to 30-40% of parliament as in other countries.

What all women in power and politics in Jamaica need to look at is a unique Parliamentary model in **Uganda** outlined as follows:

Article 78(1) of the 1995 Uganda Constitution prescribes the composition of Parliament as follows:

Parliament shall consist of:

- a). Members directly elected to represent constituencies;
- b). **One woman representative** for every district;
- c). Such numbers of representatives of the **army, youth, workers, persons with disabilities** and **other groups** as Parliament may determine; and
- d). The Vice-President and Ministers who, if not already elected Members of Parliament, shall be **ex-officio members without the right to vote** on any issue requiring a vote in Parliament.

Upon the expiration of a period of ten years after the commencement of this Constitution and thereafter, **every five years**, Parliament shall review the representation under paragraph(s) (b) and (c) of clause (1) of this article for the purposes of retaining, increasing, or abolishing any such representation and any other matter incidental to it.

The representatives referred to in paragraph (a) of clause (1) of this article shall be elected on the basis of **universal adult suffrage** and by **secret ballot**.

Parliament shall, by law prescribe the procedure for elections of representatives referred to in paragraphs (b) and (c) of clause (1) of this article.

The 7th Parliament of Uganda comprises of:

214 Constituency Representatives

56 District Woman Representatives

10 Uganda People's Defence Forces Representatives

5 Representatives of the Youth

5 Representatives of Persons with Disabilities

5 Representatives of Workers

10 Ex-officio Members

Parliament is presided over by the Speaker, and in his absence, by the Deputy Speaker both of whom are elected by Members of Parliament from their number.

74 of the **214** Members Of Parliament are women, that is a **34.6%** of MP's.
Clearly, the women in politics in Jamaica need to have serious consultations with their counterparts in UGANDA.

BANKING ON MUSICAL HITS

The music industry is one of Jamaica's biggest and most culturally significant industries, and lies at the heart of Jamaica popular culture. It is also a great economic success story. The Government needs to have a greater understanding of the importance of the industry, and show greater commitment to helping the industry realise its potential for continued growth and prosperity.

Over 90% of music businesses in Jamaica are SMEs. They face distinct problems, which hinder their ability to grow.

The main concern of the group was the problem many SMEs face in accessing finance to fund start-ups or to fund second stage growth. The group identified problems on both the demand side and the supply side, but felt more work was needed to identify the precise nature of the problems and suggest ways in which they can be overcome.

Despite the wealth of anecdotal evidence in this area, there has been little or no published research available to date.

The anecdotal evidence suggested that music companies were not aware of the range of funding opportunities available, and possibly lacked the necessary business skills to access these funds successfully, and that the banking community has insufficient understanding of the music business and other creative industries for whom royalty income is critically important. In particular there was a concern that banks might find it difficult to reconcile their desire for a guaranteed rate of return, with a perception of the music business as being inherently high risk.

There was also a concern within the music industry that Government funded support for SMEs had been largely designed with manufacturing business in mind. Whilst small music businesses are similar in many respects to other small creative businesses, there are important differences which give rise to unique problems in raising finance, and contribute towards a ‘funding dilemma’ for Jamaica’s music businesses.

Difficulties in raising finance are affecting the ability of the music business to grow and prosper in Jamaica.

Recommendations:

- 1) More effort should be spent in improving the level of ‘understanding’ between the music industry and finance-providers. This is particularly important at bank branch level where industry specific information could be cascaded down from regional or head office. The industry could consider developing and promoting a training seminar ‘roadshow’ that targeted banks at a regional level.

- 2) Regional finance initiatives, such as Local Authority loans, Enterprise Agency initiatives and Community Finance Initiatives could be better publicised within the industry.

- 3) New financial instruments, including micro-credit, social credit, organisational credit and Local Exchange Trading Systems (LETS) schemes should be encouraged.

- 4) Government/industry support could be channeled towards piloting of music industry incubator units, which benefit from an entrepreneurial learning environment, access to mentors and investors and visibility in the market place.

- 5) Appropriate support structures should be put in place to help music entrepreneurs to become ‘investment ready’. A music industry CD Rom/video could be produced to foster best practice in music management.

- 6) There is a need to disseminate up-to-date and accurate risk/reward data about the music industry. Music management role models need to be identified and publicised as examples of best practice.

- 7) Strategic alliances within the industry, such as between industry sector trade associations, other industry bodies and the Small Business Service should be promoted.

- 8) The public face of the industry should be coordinated through one central gateway.

CAN JAMAICA LEARN FROM THE ASIAN ECONOMIC EXPERIENCE?

“..... What’s more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere.”

Anne O. Krueger, First Deputy Managing Director, International Monetary Fund
At the Harvard Project for Asian and International Relations (HPAIR), Business Conference

Shanghai, China, August 21, 2004

Prime Minister P J Patterson is very upbeat about the Jamaican economy and its potential for growth. In his last address to the nation, the prime minister enumerated many positives and entreated members of the private sector, as well as the small business sector, to take advantage of current investment opportunities. The parties to the Memorandum of Understanding (MOU) between the government and the Jamaica Confederation of Trade Unions (JCTU), which was signed on February 16, will now have to undertake the challenging task of meeting the commitments that they have made. Through the Monitoring Committee that is being established to track the progress during its implementation, the parties will seek to ensure timely action and the resolution of any differences that may arise. Keeping the momentum that was generated in the negotiations is always a difficult task, and it will be especially testing in this case, given the differences in the interests of the members of the JCTU and other employee groups that were involved in the negotiation of the agreement.

All this is very interesting but, we need high levels of labour productivity to bring **Sustained Economic Development (SED)** to Jamaica. It is therefore very important to look at what has happened in the past so we do not make the same mistakes, as we cannot afford the **high cost** of any more mistakes.

Asian policymakers and entrepreneurs have long shown themselves adept at learning from the experience of others. Much of the region's growing prosperity and economic success derives from an understanding of what has bred success elsewhere.

There is an important homegrown element to the often-spectacular economic progress we have seen in many Asian countries.

It is important to focus particularly on those factors that have helped deliver rapidly rising living standards across Asia; and to suggest ways in which other parts of the world could learn from this region's success, such as Jamaica and in particular CARICOM and the upcoming CSME.

The most striking feature of Asia's economic record in the past half-century or so is the pace of **Sustained Economic Growth (SEG)** that we have seen in many countries across the region. The numbers are impressive. The official figures show that China experienced an annual average rate of increase in real per capita GDP of over 8% during the 1990s. Real per capita GDP in Korea, Thailand and Singapore has grown by more than 5% a year, on average, since 1960. India has experienced more rapid growth rates following the reforms program introduced in 1991. **Since 1990, Asian per capita incomes have grown nearly twice as fast as that of the United States.**

What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere.

Rapid and sustained growth is the key to rising living standards and falling poverty. The official figures show that the infant mortality rate in China fell by around 83% between 1960 and 2002. Thailand, Indonesia and Sri Lanka saw drops of a similar magnitude. Singapore saw a decline of 90%.

Over the same period, life expectancy for Indonesian men rose by 24 years to around 62 years; for women it rose further, by 26 years to 66 years. In Malaysia, life expectancy for men is now close to 70 and for women it is almost 75.

Literacy rates have seen similar impressive improvements. And the increase in school enrolments ensures that literacy is on the way to becoming universal.

What can Asian economic performance tell us about delivering growth elsewhere in the world—and, indeed, what can the example set by more successful Asian economies teach those economies experienced who less rapid economic expansion?

An open trading system is crucial for economic success. It is possible for closed economies to achieve high growth spurts. But no country—in Asia or elsewhere—has managed rapid growth over a sustained period without opening its economy to the rest of the world.

- 1) Trade brings competition—and this is a powerful force for increased economic efficiency. Protectionists worry about jobs lost to foreign competition. But protection costs jobs. It imposes costs on producers, especially those geared to export production (or who would be without these cost penalties). It raises the cost of protected intermediate products and thus puts producers competing with exporters in other countries at a cost disadvantage.
- 2) Competition helps increase efficiency and ensures that resources are allocated in the best possible way. It helps eliminate domestic monopolies. And so it drives down prices both for domestic consumers—as well as producers in import-consuming industries—and in the international marketplace. Prices fall because import-competing industries are no longer protected and because more competition forces monopolists to lower prices.
- 3) Trade also helps create employment, especially in emerging market countries. Open economies have an outlet for large pools of unskilled labor: instead of being a drain on resources, unskilled labor becomes an opportunity to benefit from export markets for goods whose production is labor intensive in the early stages of economic growth.
- 4) In general, the more open an economy is to the outside world, the higher are the growth rates that result. A study by Warczarg and Welch of 133 countries between 1950 and 1988 showed that countries that liberalized their trade regimes enjoyed annual growth rates of about one half of one percentage point higher after liberalization. And opening up to international trade seems to have become increasingly important: removal of trade barriers during the 1990s raised growth rates by an estimated 2.5 percentage points a year.

The rewards of openness are widely spread. Even small economies like Vietnam—which had negligible exports in 1980—have seen relatively large increases in their share of global trade as they have opened up.

Countries in other parts of the world, countries that have, for one reason or another, not opened their economies in the way that most Asian countries have, have recorded **markedly inferior growth performance.**

The impressive performance of many Asian economies owes much to the single-minded drive of governments and policymakers who were willing to persevere with their goals and who refused to be deflected. This single-mindedness is especially important once growth starts to accelerate and the temptation to relax or be distracted by other policy concerns can undermine long-term growth objectives.

Single-minded, yes: blinkered, no. Success has come in Asia in part because of the willingness of policymakers to learn from their mistakes—and, perhaps more unusually, from the mistakes of others. Governments and policymakers are like the rest of the human race—typically displaying an instinct for learning the hard way. But an adaptable approach to economic policymaking in many Asian countries has enabled governments to avoid the siege mentality that can often make problems worse, rather than better.

Successful performance was reinforced by policymakers' ability—and willingness—to try to anticipate bottlenecks and potential crisis points. They were arguably successful in this until the 1990s when they failed to anticipate the problems that weaknesses in the financial sector could bring for the wider economy.

The proximate cause of the crisis was the sudden sharp reversal of capital flows to the region. Net inflows to the Asian crisis countries were roughly 6.3% of their GDP in 1995, and 5.8% in 1996. In 1997, net outflows were 2% of GDP, a figure that rose to 5.2% the following year. The economic dislocation caused by the sudden reversal was huge, and would have been so for any country.

In terms of the policy adjustments that rapid recovery from the crisis required, the experience of the Asian economies—and for that matter many of the other countries that experienced capital account crises in the 1990s—has given us useful lessons. It reminded of things we already knew, but perhaps underestimated the importance of.

- 1) The importance of a sound macroeconomic framework. The crisis countries now have better macroeconomic frameworks in place. Monetary policy has become more focused. Fiscal policy reforms are under way in several countries. And flexible exchange rate regimes are now the order of the day in most countries in the region.
- 2) The importance of a healthy financial sector. As economies become more sophisticated, so the role played by a strong, deep, financial sector in allocating resources efficiently becomes ever more important.
- 3) The importance of a healthy corporate sector—and how much this matters for the soundness of the financial sector. A weak financial sector cannot be nursed back to health if corresponding weaknesses in the corporate sector are ignored—any remedy will turn out to be no more than a short-term fix as more corporate loans go bad. A strong, well-regulated financial sector means addressing often-difficult issues such as non-performing loans; capital adequacy; and effective supervision. Financial institutions need the

appropriate incentives to develop the skills required to assess and manage credit risk and returns. Effective bankruptcy laws—that strike the right balance between creditors’ and debtors’ rights—need to be in place.

- 4) So more effort is needed to deepen financial markets—to extend the number and variety of instruments available, for instance. A more rapid shift towards greater use of equity and bond financing would reduce reliance on the banking sector. It would improve the assessment and management of credit risk.
- 5) Improved corporate governance is a requirement of corporate sector health. As has become clear in all too many countries around the world, lax standards can undermine business performance and, in turn, economic growth prospects when investor confidence is damaged.

The lessons from Asia's experience are clear: persistent application of sound, pro-growth macroeconomic policies. Flexible exchange rates which reduce the risk of severe output shocks. A strong, well-regulated and deep financial sector. And a constant eye on the future—a readiness to learn from mistakes and respond to success.

CONSTRUCTING CARIBBEAN KNOWLEDGE SOCIETIES: NEW CHALLENGES FOR CARICOM

Mr. Damion Crawford, President of the Guild of Students, UWI Mona Campus is quoted as saying recently university administrators are "misleading" the public by suggesting that students who are having a problem paying fees could cut costs by attending classes part-time.

Minister Paul Robertson at the launch of the World Investment Report (WIR) 2004 recently said clearly services is the way forward for Jamaica.

Number 3 of the **Mona Declaration On Tertiary and Higher Education** states:

...Since tertiary and higher education promote both personal growth and societal goals, the formula for financing tertiary education should be based on a combination of government support and an expanded loan scheme to enable a larger number of students to finance their education as an economic investment...

Recent research out of the World Bank is of the opinion that tertiary education in Jamaica and other CARICOM countries is more than the capstone of the traditional education pyramid; it is a critical pillar of human development worldwide. In today lifelong-learning framework, tertiary education provides not only the high-level skills necessary for every labor market but also the training essential for teachers, doctors, nurses, civil servants, engineers, humanists, entrepreneurs, scientists,

social scientists, and myriad personnel. It is these trained individuals who develop the capacity and analytical skills that drive local economies, support civil society, teach children, lead effective governments, and make important decisions, which affect entire societies. Universities are clearly a key part of all tertiary systems, but the diverse and growing set of public and private tertiary institutions in every country colleges, technical training institutes, community colleges, nursing schools, research laboratories, centers of excellence, distance learning centers, and many more forms a network of institutions that support the production of the higher-order capacity necessary for development in Jamaica and CARICOM.

Knowledge has become, more than ever, a primary factor of production throughout the world economy. The recent transformations in the world and in tertiary education have made necessary a reexamination of policies and assumptions to inform our work in a rapidly changing environment. Indeed, the pace of change and innovation has intensified, markedly product development cycles are being compressed, services are becoming a larger proportion of economic output worldwide, computer power and capacity continue to rise and hardware prices to fall, data transmission costs are declining, and communication technology (as evidenced by the spread of the Internet and of cellular phone usage worldwide, usage in Jamaica is a case where the market for prepaid cards for cell phones is in the billions of dollars) is expanding, particularly in developing countries. Tertiary education, in its training, research, and informational role, is vital if countries are to adapt to these far-reaching changes.

The recent World Bank study *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, by David Dollar and Paul Collier, describes how 24 developing countries that integrated themselves more closely into the global

economy experienced higher economic growth, a reduced incidence of poverty, a rise in the average wage, an increased share of trade in gross domestic product, and improved health outcomes.

These countries simultaneously raised their rates of participation in higher education. Indeed, the countries that benefited most from integration with the world economy achieved the most marked increases in educational levels. In addition, there is growing evidence that tertiary education, through its role in empowering domestic constituencies, building institutions, and nurturing favorable regulatory frameworks

and governance structures, is vital to a country's efforts to increase social capital and to promote social cohesion, which is proving to be an important determinant of economic growth and development.

Although there has been much growth and many improvements in tertiary education systems in developing and transition countries and broader use of foreign and distance education providers, the evolving nature of the knowledge economy highlights the rigidities and weaknesses that prevent certain tertiary education systems from maximizing their potential to build local capacity.

Developing countries are at the greatest risk of exclusion from the dynamics of the world economy. This marginalization not only promotes human capital flight i.e. the brain drain from the countries that can least afford it but also raises the likelihood that local concerns will be overlooked, ignored, and postponed.

Some important points to keep in mind:

- The emerging role of knowledge as a major driver of economic development

- The appearance of new providers of tertiary education in a border- less education environment
- The transformation of modes of delivery and organizational patterns in tertiary education as a result of the information and communication revolution
- The rise of market forces in tertiary education and the emergence of a global market for advanced human capital
- The increase in requests for financial support for tertiary education reform and development
- The recognition of the need for a balanced and comprehensive view of education as a holistic system that includes not only the human capital contribution of tertiary education but also its critical humanistic and social capital building dimensions and its role as an important global public good.

Finally we need to keep the following in mind for serious economic development:

- Social and economic progress is achieved principally through the advancement and application of knowledge.
- Tertiary education is necessary for the effective creation, dissemination, and application of knowledge and for building technical and professional capacity.
- Developing and transition countries are at risk of being further marginalized in a highly competitive world economy because their tertiary education systems are not adequately prepared to capitalize on the creation and use of knowledge.
- The state has a responsibility to put in place an enabling framework that encourages tertiary education institutions to be more innovative and more

responsive to the needs of a globally competitive knowledge economy and to the changing labor market requirements for advanced human capital.

Thomas Carlyle famous Scottish critic sums up the issue effectively: Our main business is not to see what lies dimly in the distance but to do what lies clearly at hand.

CRIMINAL CASH TO FIGHT GUN CRIME

Cash seized from criminals will be recycled to support local projects tackling gun crime.

Groups in areas worst affected by gun crime will be able to get \$2,500,000 to encourage young people away from gun crime. The "Connected Fund" will also support the victims of gun crime.

The Connected Fund will be "invaluable".

People in all neighbourhoods have a right to feel safe and across the country people are standing up to the criminals who cause such fear and misery and saying 'enough is enough,

There is great energy and drive at community level to deal with crime generally and gun crime in particular and as a nation we must do all we can to support this.

The Connected Fund will help groups tackling gun culture in their local areas.

GETTING OUT THE VOTE

The literature on recent large-scale field experiments of getting out the vote (GOTV) drives have been non-partisan and may not accurately capture the effectiveness of partisan campaign outreach.

Recent research based on elections in the state of Michigan in 2002 looks at cost effectiveness of three mobilization technologies utilized by the Michigan Democratic Party's Youth Coordinated Campaign: door hangers, volunteer phone calls, and face-to-face visits. The results indicate that all three GOTV strategies possess similar cost-effectiveness.

How effective are various campaign tactics at bringing voters to the polls?

Handbooks for political practitioners emphasize face-to-face contacts and targeted mailings for local campaigns while advocating mass advertising on television and radio for candidates in districts too large to walk (Fauchex 2002, Bike & Ulmer 2001, Guber 1997). With the number of elected officials in the United States topping 511,000 (U.S. Census 1995), the appetite for guidance on how to attract voters has been strong. Popular manuals on voter turnout have focused on anecdotes from successful campaigns, which reflect fads pushed by paid consultants. We look at primarily experiment-based non-partisan get-out-the-vote research (Gerber and Green 2000; Gerber and Green 2001; Green, Gerber & Nickerson 2003) by exploring mobilization on a large scale and within a highly partisan environment: the 2002 Michigan gubernatorial election.

Surveys from time to time have noted the importance of close elections and strong top-of-the- ticket draws, but as for what specific things candidates can do to

increase turnout, the evidence is less conclusive (Wielhouwer & Lockerbie 1994; Caldeira, Clausen & Patterson 1990; Kramer 1970).

Personal contact from a campaign is correlated with higher turnout, whether the contact occurs over the phone or face-to-face (Rosenstone & Hansen 1993). The strength of the links between actions of a campaign and voters are, however, difficult to discern using surveys.

Political parties carefully target appeals to people who are already politically active, so those contacted may indeed vote more, but not necessarily because of the contact (Wielhouwer 2003). Furthermore, the mere act of answering a political survey is a political act, and the non-response problem may exaggerate the effect of contacting voters (Brehm 1993).

Field experiments, beginning with Gosnell (1927), divide potential voters into treatment and control groups in order to assess the influence of campaign mailings, phone banking, door knocking, and so on (Eldersveld 1956, Adams & Smith 1980, Miller, Bositis & Baer 1981).

Each of these experiments found a boost in turnout from personal contact, but the sample sizes were small and the experiments failed to account for people in the treatment group who were not contacted (Gerber, Green & Nickerson 2001).

Recent experiments by Gerber and Green (2000a, 2000b, 2001a, 2001b, 2003) have corrected for deficiencies in earlier studies while including cost estimates of the effectiveness of different turnout techniques (Green, Gerber & Nickerson 2003; Nickerson *forthcoming*).

Nonpartisan face-to-face canvassing was shown to have the largest effect on turnout (ranging from eight to ten percent, depending on the experiment), while costing from \$12 to \$20 per additional vote. For roughly the same cost per additional vote, phone calls from volunteers, which presumably seem more sincere than calls from professional phone bank operators, mobilize three to five percent of the treatment group. In these experiments, professional phone banks proved costly and largely ineffective. Estimates of the costs and effectiveness of get out the vote (GOTV) campaigns have relied on experiments overseen by scholars and run by nonpartisan organizations, such as local Public Interest Research Group (PIRG) chapters.

Experiments infusing partisanship into their design are more realistic and may yield results that cannot be captured in nonpartisan environments.

The 2002 Michigan gubernatorial race pitted Republican Lt. Governor Dick Posthumus against Democratic Attorney General Jennifer Granholm. Granholm won with 51% of the vote. Nearly 3.2 million voters – a record for a non-presidential year – cast ballots. The campaign environment was rich with media attention, while partisan and non-partisan groups worked to get voters to the polls.

HER MAJESTY'S GOVERNMENT TO SAVE THE WORLD?

“I am encouraged by the efforts that countries and donors are making to achieve the Millennium Development Goals by 2015. Developing countries have made welcome strides in improving policies and institutions to create a better environment for growth. Donors are making progress in harmonizing their aid agendas, thus rendering aid policies more coherent and effective. But despite these efforts, developing countries cannot make the infrastructure and social expenditures needed for sustained growth and poverty reduction.”

Rodrigo de Rato

Managing Director of the International Monetary Fund

At the Summit of World Leaders for Action Against Hunger and Poverty

New York, September 20, 2004

World leaders are hoping to put a spotlight on the growing gap between rich and poor and the failure to find US\$50 billion (euro41 billion) a year to help more than 1 billion people escape extreme poverty and start sharing global prosperity.

Brazilian President Luiz Inacio Lula da Silva said recently that poverty is "morally and ethically unacceptable." He called for a global campaign "to free all human beings from hunger" and ensure that 24,000 people don't continue to die every day because they have nothing to eat.

How will this be possible, especially by 2015 when the millennium Development Goals are to be achieved?

International Finance Facility

In January 2003 HM Treasury and the Department for International Development (DFID) launched a proposal for an International Finance Facility (IFF). The IFF is designed to frontload aid to help meet the Millennium Development Goals.

Estimates suggest that development assistance must be doubled and focused on the poorest countries if the Millennium Development Goals are to be met . an increase of at least \$50 billion a year. At the UN.s International Conference on Financing in Monterrey in 2002, donors pledged to provide an additional \$16 billion a year from 2006. But this means a significant resource gap must be bridged if the Millennium Development Goals are to be reached.

The Millennium Development Goals represent different indicators of the same basic poverty. Investments in different sectors must take place simultaneously to ensure sustainable progress. Education, health, access to water, roads and other infrastructure for growth must be tackled at the same time to ensure a lasting exit from poverty. Funding for debt relief should reinforce, not replace, funding to build a skilled work force and the infrastructure and capacity to trade.

The IFF, as a stable financing vehicle, could provide the critical mass of additional and predictable funding needed to make lasting progress in all these areas.

Donors are committed to reaching the target of 0.7% ODA/GNI, but a number have fiscal constraints that will not allow them to increase aid levels in the short to medium term. The IFF should be seen as a complement to donors. long-term commitment to 0.7% ODA/GNI: it would meet the immediate need for resources to meet the MDGs as donors move towards the 0.7% ODA/GNI target.

The IFF:

- Is a financing mechanism, which would provide up to an additional \$50 billion a year in development assistance between now and 2015.
- Would leverage in additional money from the international capital markets by issuing bonds, based on legally binding long-term donor commitments.
- Would be responsible for repaying bondholders using future donor payment streams.

- Would disburse resources through existing multilateral and bilateral mechanisms.

The IFF has the following advantages:

- It provides the additional resources necessary to help achieve the MDGs, making funds available for education, health, economic development, debt relief and building trade capacity.
- It locks in the political commitment of donors to Monterrey pledges.
- It provides the predictability and critical mass of aid needed for simultaneous and sustainable investment in developing systems across sectors, tackling the causes rather than the symptoms of poverty.
- It could achieve a step-change in aid effectiveness through donor agreement to high-level aid principles such as untying aid.

Since the proposal for the IFF was launched, it has received broad interest and support from emerging markets, developing countries, international institutions, faith communities, NGOs and business.

Fundamental Issues addressed

Is it wrong to borrow for development?

No. The World Bank, for example, is a long-standing borrower in the capital markets, and all countries borrow to invest in their long-term prosperity. There is clear economic justification for borrowing for investment in poverty reduction. The

rates of return from such investment are greater than the target rates of return of both donor and recipient countries, and the cost of borrowing. For example, evaluations of World Bank projects show average annual rates of return of 23% (Foster, M. (2003) *The Case for Increased Aid*)

Is it an alternative to the 0.7% ODA/GNI commitment?

No, the IFF should be seen as complementary to the target of 0.7% ODA/GNI. In the long-term the Government is committed to reaching this target. But due to the fiscal pressures faced by key donors, the international community will not be able to meet the 0.7% target in the short term. If the two or three biggest donors do not get to 0.7% ODA/GNI immediately then even if every other major donor country reached 0.7% we would still not raise the \$50 billion needed to meet the MDGs.

What happens to aid budgets after 2015?

Donor contributions to the IFF would consist of the additional commitments made at Monterrey, leaving pre-Monterrey budgets unaffected. Aid flows beyond 2015 could be considerably higher than the current levels of aid, even allowing for IFF bond repayments. Firstly, higher GNI will mean larger flows if the ODA/GNI ratio remains constant. Secondly, we expect that the ODA/GNI ratio will get closer to the 0.7% target by 2015. Political debate about how far aid budgets are committed and increased by 2015 will be essential but that debate would start from a higher base, as the IFF would have doubled the amount of aid received by recipient countries. The IFF would also provide donors with more time to reach 0.7% at a time of fiscal pressure.

Will it increase developing country debt?

No - the IFF would disburse funds by way of grants or debt relief and so could reduce developing country debt. First, it could provide the additional resources needed for debt relief, without simply reallocating resources from one form of financing to another or from non-Heavily-Indebted Poor Countries (HIPCs) to HIPCs. Second, it is designed to provide grants to the poorest countries, ensuring debt sustainability. Its borrowing would not be financed by recipient countries but by the facility itself, using donor payment streams.

Would the IFF be a new agency?

No – the IFF would be a temporary financing mechanism specifically designed to raise and allocate the money needed to make progress on meeting the MDGs by 2015. It would seek to use existing effective bilateral and multilateral disbursement mechanisms.

Would IFF borrowing have an adverse effect on the cost of borrowing?

No – because the international market for bonds similar to those the IFF would issue is very deep. In 2002 funding programmes in AAA bonds issued by US agencies (Fannie Mae, Federal Home Loan Bank, and Freddie Mac), along with KfW, the European Investment Bank, IBRD, the regional development banks and Cades totalled around \$1,060 billion, of which \$360 billion was in international capital markets.

Which countries would benefit from the IFF?

Funds would be allocated according to a set of high-level principles to be agreed by donors. One of these principles might be to target funds to low-income countries, for instance, concessional loans. The allocation to countries and disbursement mechanisms would take account of donors' preferences. Information on the spread of countries receiving IFF funds would be freely available.

This proposal by Her Majesty's government is a bold one but not impossible. It will bring the poorest countries in the world in to the global market place and ensure that they are able to at least function at a level which would be not possible before and in some countries of the south it will be a dream come true.

From the north in the context of the North –South dialogue which is fast becoming an East-West dialogue with the economic growth of such countries China and India, will be that these countries will be brought to a level of per capita income to be able to purchase goods and services from the north which they would not have been able to do so before,

Hence, this IFF facility will bring the poorest countries of the south in to the Global village of efficiency, productivity and possible growth and development in the future.

How Does Governance Affect Public spending And Outcomes?

The role of good governance has been emphasized in recent years as a key to development effectiveness. For example, it has been argued that merely allocating public resources for right goods and services may not lead to desirable outcomes if budget institutions—involving planning, management, and execution—are malfunctioning (*World Bank 1998*).

Research out of Georgetown University (Rajkumar 2002) and the World Bank (Swaroop 2002) highlight the fact that while this proposition above seems pretty straightforward and difficult to disagree with, no serious empirical work has been carried out to support it; the impact of public spending on outcomes at different levels of governance.

The basic idea is to examine the link between specific budget allocations and outcomes, and see how these relationships are affected with improved governance. A number of past studies have looked at the link between public spending and outcomes (e.g., impact of public spending on economic growth or on other outcomes such as health status or education attainment). In cases where public spending is found to have low or negligible impact, two explanations are given: First, it is argued that the link between public spending and development outcomes could be severed because an increase in public provision could lead to a “crowding out” of provision by the private sector. This line of reasoning does not question the efficacy of public spending per se; instead, it contends that due to substitution by public for private spending, additional public provision in many cases has a negligible net marginal effect. The second set of possible reasons for the

ineffectiveness of public spending includes poor targeting and/or institutional inefficiencies such as leakage in public spending and weak institutional capacity. In providing assistance to developing countries, a common approach adopted by most donor agencies is to ask for increases in budgetary allocation for programs on education and health. While in most cases this may be necessary, it is certainly not, by itself, sufficient to ensure enhancement or improvement in actual service delivery. Bad budget management has frequently been cited as one of the main reasons why governments in developing countries find it difficult to translate public spending into effective services (World Bank 1998).

Characteristics of a public expenditure management system that contribute to the effectiveness of service delivery and lead to better outcomes include: (a) a comprehensive and properly approved budget; (b) internal control mechanisms (including well functioning and transparent financial management and procurement systems) to ensure that funds are spent as intended; and (c) regular and timely reports to the legislature on actual expenditure in comparison to budgeted amounts. In the absence of such a system, public funds are likely to be wasted and/or misappropriated. A reasonable proposition, therefore, can be made: Managing public resources to promote development requires well-trained, skillful personnel, working in an institutional setting with an incentive system to reduce fraud and promote cost efficiency.

More specifically, there is a need to address the following three questions:

1. How effective is public spending in improving social indicators such as infant mortality? Could public resources help achieve better education outcomes?

2. What is the contribution of a public expenditure management system that promotes cost efficiency by reducing corruption in enhancing the link between public spending and social outcomes?
3. How important is the public sector's institutional capacity—in particular, human resources—in providing effective services that lead to better development outcomes?

The answers to these questions have important implications for enhancing the development effectiveness of public spending. Simply increasing public spending on health and education is less likely to lead to better outcomes if countries have poor governance. These findings are particularly relevant for developing countries, where, on average, the state of governance is quite poor. Two of the seven International Development Goals are: (i) Achieving universal primary education in all countries by 2015; and (ii) lowering child mortality by three-fourths and infant mortality by two-thirds by 2015.

Increasing public spending on health and education is an easier option than improving governance, but as findings suggest the easier option may not lead to achievement of these goals.

JAMAICA AND ORIGINAL SIN

The Catholic Encyclopedia states Original sin may be taken to mean: *(1) the sin that Adam committed; (2) a consequence of this first sin, the hereditary stain with which we are born on account of our origin or descent from Adam.*

From the earliest times the latter sense of the word was more common, as may be seen by St. Augustine's statement: "the deliberate sin of the first man is the cause of original sin" (De nupt. et concup., II, xxvi, 43). It is the hereditary stain that is dealt with here. As to the sin of Adam we have not to examine the circumstances in which it was committed nor make the exegesis of the third chapter of Genesis.

The crises of the late 1990s showed that Latin American countries could not follow the example of the more developed European economies and respond to an external shock by depreciating their currencies. It soon became evident that the structure of debt had something to do with a country's inability to freely float its exchange rate, and this was at the basis of the new research agenda on "Original Sin" that was pioneered . In an article presented at the Jackson Hole conference organized by the Federal Reserve Bank of Kansas City, Eichengreen and Hausmann (1999) defined Original Sin as a situation in which a country cannot borrow abroad in domestic currency.

A paper by Hausmann, Panizza, and Stein (2002) was one of the first attempts to measure Original Sin and show that this phenomenon has important consequences for the conduct of monetary and exchange rate policy. In particular, the paper shows that Original Sin limits the central bank's ability to conduct an independent monetary policy and leads to what Calvo and Reinhart (2000) have called "fear of floating."

Subsequent work by Eichengreen, Hausmann, and Panizza (2003a and 2003b) and Hausmann and Panizza (2003) corroborated the original results and showed that Original Sin cannot be fully explained by poor domestic policies or institutions. This later research also expanded the analysis from a relatively small sample of approximately 30 countries, to a sample that includes all countries for which data are available (approximately 80) and showed that Original Sin is a pervasive phenomenon. In particular, it was shown that out of the nearly \$1.3 trillion in outstanding securities placed in international markets by countries that do not issue the five major currencies (the US dollar, the Euro, the yen, the pound sterling and Swiss franc) \$1.1 trillion was denominated in those five major currencies.

Recognizing that the presence of foreign currency debt limits the ability to conduct a counter-cyclical exchange rate policy led to two kinds of policy responses. The first suggested that countries should abandon any attempt to use the exchange rate as a policy instrument and fully embrace credibility by adopting official dollarization (Hausmann, 1999, Calvo, 2000). This policy proposal generated an intense debate and several authors criticized the adoption of super fixed exchange rate regimes by suggesting that they limit policy flexibility (Sachs and Larrain, 1999, Chang and Velasco, 2000) and increase the incentives to borrow and lend in foreign currency (Burnside et al., 2000).

The second kind of policy response aimed at devising a strategy to “redeem” countries from Original Sin and thus create the conditions under which emerging market countries could conduct counter-cyclical monetary and exchange rate policies. In this setting Eichengreen and Hausmann (2003) formulated a proposal that was not based on domestic policy but would require the active involvement of the international financial institutions (which would be required to issue bonds

denominated in a basket of emerging market currencies). While the validity of such a proposal is still under discussion (for a critical analysis, see Goldstein and Turner, 2004, and Reinhart, Rogoff and Savastano, 2003), the Original Sin research agenda is very much at the center of the current policy debate, and it explains such institutions as the Inter-American Development Bank's recent decision to issue bonds denominated in currencies of its borrowing countries.

The Russian default of 1998 was a milestone in the development of emerging capital markets because it was hard to imagine how a crisis in a country with virtually no financial or trading ties to several emerging market countries could have such profound effects on them. This puzzle posed serious challenges to traditional explanations of financial crises and led analysts to focus on the intrinsic behavior of capital markets. Thus, it was argued that prevailing rules for capital market transactions may have been responsible for the spread of shocks from one country to other regions. Calvo (1999) suggested that the high leverage of financial intermediaries in margin operations led to a liquidity crunch when Russian bond prices collapsed, which in turn forced massive sales of emerging market assets. In fact, Calvo (2002) suggests that Sudden Stops are not due to the oft-cited temptations of moral hazard, but rather to "Globalization Hazard," whereby limited information on the part of some investors leads to self-fulfilling contagion. As in the case of Original Sin, such a situation cannot be fixed by domestic policies alone (although more openness and less debt can help in preventing the devastating effects of sudden stops). Therefore, Calvo (2000) proposes a global solution based on an emerging market fund that would prevent contagion through purchases of an index of emerging market bonds during crisis periods.

While the Russian Crisis had a negative effect on the whole region, the consequences were disastrous for Argentina, which suffered an economic crisis of unprecedented magnitude and was forced into the largest debt default in the history of emerging markets. The paper by Calvo, Izquierdo and Talvi (2003) focuses on the fiscal effects of a Sudden Stop in capital flows and shows that the Sudden Stop that followed the Russian crisis played a fundamental role in the Argentinean crisis.

A Sudden Stop in capital flows will require a quick adjustment of a country's current account deficit. While countries with a large and competitive tradable sector can close the current account deficit with a surge in exports, countries with a relatively small tradable sector relative to their absorption of tradables will have to close the current account deficit by reducing the absorption of tradable goods, and this can only be achieved with a depreciation of the real exchange rate.

The real depreciation brought about by a Sudden Stop will have no serious consequences in countries where most of the debt (both public and private) is denominated in domestic currency. However, the consequences can be devastating in countries where most of the debt is denominated in foreign currency. In particular, a real depreciation in the presence of a large amount of dollar-denominated public debt will lead to a sudden jump in the debt-to-GDP ratio and push an economy over the edge of insolvency.

JAMAICA AND THE SERVICES INDUSTRY: THE WAY FORWARD

“The World Bank has come out in support of the ‘Doing Business in 2004 Report’, which has ranked Jamaica among the top 10 best countries to do business in.”

Minister of Development, Dr. Paul Robertson

However the following report *Doing Business in 2005: Removing Obstacles to Growth*, did not mention Jamaica in its top 20 countries this year. What could have caused Jamaica to fall from grace 12 months later? Hypercompetition, i.e. the intense competitive environment in which the global village operates, amongst other things to put it euphemistically.

The top 20 economies in terms of ease of doing business are New Zealand, United States, Singapore, Hong Kong/China, Australia, Norway, United Kingdom, Canada, Sweden, Japan, Switzerland, Denmark, Netherlands, Finland, Ireland, Belgium, Lithuania, Slovakia, Botswana, and Thailand.

Slovakia and Colombia were the world's most successful investment climate reformers over the past year, creating electronic one-stop shops for new businesses, shrinking regulatory delays by weeks, improving credit registries, and increasing the flexibility of labor laws, according to a new report from the World Bank Group.

Minister Paul Robertson, at the Launch of the World Investment Report 2004 stated clearly, the way forward for Jamaica is in the area of services. In an environment in what counts is what works, we looked at the highly successful case study of the services revolution in India. Similarly, in the 1960's Lee Kuan Yew came to Jamaica to examine the then Jamaica success model, he then went back to Singapore, duplicated and improved on it; perhaps we can do the same with other successful models such as the Indian model.

A striking feature of India's growth performance over the past decade has been the strength of its services sector. (Gordon and Gupta 2004).

on average services grew more slowly than industry between 1951 and 1990. Growth of services picked up in the 1980s, and further accelerated in the 1990s, when it averaged 7.5 percent a year, thus providing a valuable prop to industry and agriculture, which grew on average by 5.8 percent and 3.1 percent respectively. Most forecasters expect that services will grow at similar if not higher rates over the next few years. Growth in the services sector has also been less cyclical and more stable than growth in industry and agriculture.

The emergence of services as the most dynamic sector of the Indian economy has in many ways been a revolution. The most visible and well-known dimension of the take-off in services has been in software and information technology (IT)-enabled services (including call centers, software design, and business process outsourcing). However, growth in services in India has been much more broad-based than IT. In fact, although IT exports have had a profound impact on the balance of payments, the sector remains a small component of GDP.

As of 2003, business services (which includes IT) were only about 1¾ percent of GDP, accounting for just 3 percent of total services output. Almost all service subsectors in India have grown faster than GDP over time, but the pick-up in growth in the 1990s was the strongest in business services,

communication, and banking services, followed by hotels and restaurants and community services. These activities together account for the entire acceleration in services growth in the 1990s. The growth in public administration and defense, real estate, storage, transport, and personal services in the 1990s was broadly similar to that in the previous decades.

Rapid growth of the services sector is not unique to India. The existing literature shows that as an economy matures the share of services in output increases consistently. To begin with, the increase occurs along with an increase in the share of industry. Thereafter, the services share grows more rapidly, accompanied by a stagnant or declining share of the industrial sector.

Consistent with this trend, India's growth experience has been characterized by a decline in the share of agriculture in GDP and an increase in the shares of industry and services. Between 1951 and 2000, the share of agriculture in GDP fell from 58 to 25 percent, while the share of industry increased from 15 to 27 percent, and the share of services rose from 27 to 48 percent. Of particular note are the changes during the 1990s, when the share of services in India's GDP climbed by about 8 percentage points, as compared to a cumulative increase of 13 percentage points during 1951–90. The share of industry, by contrast, remained constant during the 1990s.

What are the factors behind the dynamism of the services sector in India? One explanation suggested in the literature for fast growth in services is that the income elasticity of demand for services is greater than one. Hence, the final demand for services grows faster than the demand for goods and commodities as income rises. Another explanation is that technical and structural changes in an economy make it more efficient to contract out business operations that were done internally by individual firms. This type of outsourcing has been called the “splintering” of industrial activity. Splintering results in an increase in net input demand for services from the industrial sector, and the services sector growing proportionately faster than other sectors.

The empirical evidence presented shows that while splintering and high-income elasticity of demand for services have served to stimulate services growth in India; it is necessary to look beyond these factors to fully explain the growth acceleration in the 1990s. In particular, important roles also seem to have been played by economic reforms, and growing demand for services exports.

Looking forward, our analysis suggests that the Indian services sector may experience an extra impetus to growth in coming years from exports and from liberalization. New markets for Indian services exports are just beginning to be tapped and there is substantial scope for further high growth rates in tradable services. There is also scope for considerable growth from liberalization and the associated productivity gains in some of the services subsector where growth has lagged behind in the 1990s. The distribution sector seems to be a prime candidate in this regard.

One caveat to our analysis is that the quality of the Indian national accounts data on services does not appear to be strong. Acharya (2003) shows that actual estimation of certain services is rather indirect and based on imprecise assumptions and lagged information. He also raises the issue that the change of base year to 1993–94 in the data may have affected the continuity of data and inflated the output of services sector in the 1990s. While there is merit in these arguments, there is, unfortunately, no easy way to verify the data quality. However, the comparability of data can be assessed over time by looking for a distinct break in the time series. In this context, we could not find evidence of any significant breaks, including in 1993–94. On the contrary,

what we see is the growth acceleration in different service activities starting in different years, and also to be spread over a number of years rather than being confined to just one year.

Which services have grown rapidly? A comparison of the actual and the trend growth rates shows that growth in several service sub-sectors accelerated sharply in the 1990s (and for banking in the 1980s); indicating some sort of a structural break in their growth series. We call these activities fast growers. The remaining activities grew more or less at a trend rate; these we call trend growers (Gordon and Gupta 2004)

Fast Growers

Based on the above criterion, fast growers were as follows:

- **Business services** (including IT) was the fastest growing sector in the 1990s, with growth averaging nearly 20 percent a year. Though disaggregated data for this category are not available, export and software industry data indicate that the growth was mainly on account of the IT sector. Despite being the fastest growing sector, business services, particularly IT activity, was growing off a low base and its contribution to the services sector and GDP growth was quite modest in the 1990s. As we discuss later, this segment is expected to continue growing at a very high rate and is likely to contribute more significantly to services growth in the future.
- **Communication services**, which registered growth of 14 percent a year during the 1990s, made a significant contribution to services growth. The growth in communication was mostly due to telecom, which accounts for 80 percent of output.
- In the **banking sector**, growth jumped from about 7 percent over the period 1950–80, to 12 percent in the 1980s, and 13 percent in the 1990s. Growth was most rapid in the NBFIs (which grew by 24 percent in the 1980s and 19 percent in the 1990s), followed by growth in the banks (by 10 percent and 9 percent, respectively, in the 1980s and 1990s). Overall, the contribution of banking to services sector growth was larger than that of the communications sector.
- **Community services and hotels and restaurants** increased at the trend growth rate through the early 1990s, but experienced a pick up in growth in the latter part of the decade. In community services, this was due to both education and health services (70 percent and 23 percent of value added, respectively) growing at an average rate of 8 percent in 1990s.

Trend Growers

Among the trend growers, the growth rate of distribution services (the largest service subsector in India), averaged about 6 percent in the 1980s, higher than in previous decades, and accelerated further to about 7 percent in the 1990s—just below the threshold for fast growers.

The rate of growth of public administration and defense in the 1990s averaged 6 percent, which was similar to the growth experienced in previous decades. Growth spiked in response to the Fifth Pay Commission awards to government employees in the late 1990s, but this did not substantially increase average sector growth for the decade as a whole.

The growth rate of personal services jumped to 5 percent in the 1990s, but remained below the growth in most other services activities. The other sub-sectors such as transport, dwellings, and storage grew more or less at the same rate in the 1980s and 1990s as in previous decades.

The fast growing activities accounted for about a quarter of services output in the 1980s, but because of their relatively fast growth, these activities represented one-third of services output by 2000. We show the estimation of the average contribution of the fast growers and trend growers to services growth in the 1950s–1970s, the 1980s, and the 1990s.

Based on our estimates, the high services growth in the 1980s was primarily due to the trend growing sub-sectors. These activities added about 1 percentage point of additional services growth in the 1980s, while fast growing activities made a contribution only about half as large. In the 1990s, by contrast, fast growing sectors made about the same contribution to services growth as the trend growing sectors. In fact, since the growth of trend growing sectors was about the same in both decades, the fast growers collectively accounted for almost all of the higher services growth in the 1990s. This is consistent with new activities and industries having sprung up in the fast growth sub-sectors, but not in the trend growth ones.

How do we explain this services sector growth? A number of studies have attempted to explain the fast growth in the share of services activity observed in cross country data. The literature draws a distinction between demand and supply factors (Kravis, 1982, Francois and Reinhart, 1996). On the supply side, the output share of services can be boosted by a switch to a more services-input intensive method of organizing production. Such a change in production methods can arise as a result of increasing specialization as the economy matures. For example, over time,

industrial firms may make greater use of specialist sub-contractors to provide services that were previously provided by the firms themselves. Legal, accounting, and security services are obvious candidates to be contracted out. Bhagwati (1994) calls this process of specialization splintering. Kravis (1982) points out that splintering can lead to growth in the share of services in GDP, even when GDP itself is not growing. On the demand side, an increase in the output share of services can arise from rapid growth in the final demand for services. This could be from domestic consumers with a high income elasticity of demand for services, or from foreign consumers with a growing demand for the country's service exports. Demanded growth of this type is likely to result, at least initially, in a rise in the prices of services, as well as a shift of resources into the production of services.

Services activity can also be stimulated by technological advances, whereby new activities or products emerge as a result of technological breakthrough—such advances are likely to be particularly relevant in the case of the IT and telecommunication sectors and to some extent in financial services (credit cards, ATMs etc.). Liberalization can also provide a boost to services. In India, important policy reforms were made in the 1990s, which were conducive to the growth of services sector, such as deregulation, privatization and opening up to foreign direct investment (FDI). If the growth of services was previously inhibited by government controls, then policy changes may provide a positive shock that unleashes new activity and growth.

In common with the experience of many other countries, the services sector in India has grown faster than agriculture and industry. As a result, the share of services in GDP has increased over time. In the 1990s, services growth was particularly strong, and this has led to the services share in output being relatively large in India compared with other countries at similar levels of development. What is also striking about India's growth experience is that the services sector does not appear to have created many jobs. Admittedly the employment data suffer from limitations. Nonetheless, unlike the experience of many countries where productivity growth in the service economy has tended to lag behind that of other sectors, it appears that the Indian services sector has been characterized as experiencing increasing labor productivity.

The acceleration in growth of the services sector in India in the 1990s was due to fast growth in communications, banking services, business services (IT), and community services (education and health). The remaining sectors grew at a constant or trend growth rate. We have shown that

factors such as high-income elasticity of demand and increased input usage of services by other sectors have played an important part in elevating services growth. Also important, at least in the 1990s, have been factors such as economic reforms and the growth in foreign demand for services exports. Significant productivity gains appear to have occurred in the faster growing sectors, leading to a decline in their relative prices.

Our findings suggest that there is considerable scope for further rapid growth in India's service economy. That Indian services exports have strong future growth prospects is well known, but we also find that there is considerable scope for further rapid growth in other segments provided that deregulation of the services sector continues. Nevertheless, it is imperative that the industrial and agricultural sectors also grow rapidly. The relatively jobless nature of growth in India's services sector further underscores this need.

JAMALCO AND THE PEOPLE OF CLARENDON

“Alcoa's involvement in Jamaica has contributed to a transformation of its economy. Alcoa's already significant contribution to the long-term development of Jamaica will continue; We expect also that its outstanding record of support for community development in Clarendon will be maintained.”

Prime Minister P.J. Patterson

The Jamalco plant in Clarendon has come under environmental heat for illegal emissions and the people have demonstrated to say their environment is suffering. In this context government who is a 50% partner could be sited as seriously violating the KYOTO environmental Protocol which it ratified on June 6, 1995 and entered into force on April 6 1995. A noted environmentalist has been on a prominent talk show saying the present expansion and emission levels would be illegal in the United States. The role of NEPA has once again come under scrutiny similarly as to when The Spanish Hotel chain RIU was dumping into the sea allegedly, which was said to be affecting the biodiversity of the the said area. JAMALCO's sustainability report 2003 “From the hills of Jamaica to the world” documents the facts that JAMALCO is an excellent corporate citizen. However being an excellent corporate citizen does not exonerate you from enviromental responsibility. What are the facts, for in Jamaica we tend to give one side and not the other. Further if you accept the company's FDI, foreign direct investment, then you also accept the principles on which they operate and if you do not accept their principles you should return or refuse the the FDI. Can Jamaica afford to do so? The answer is no and as such the Government of Jamaica has made compromises and trade offs in the context of medium to long term Economic Development.

Whether we agree with the policy approach and projected outcomes is another dissertation to be explored at another time.

In April 2002, Alcoa World Alumina & Chemicals (AWAC), in which Alcoa Inc. holds a 60-percent stake and WMC Ltd. 40 percent, reached an agreement with the Jamaican government to invest \$115 million to expand the Jamaica Aluminum Co. (Jamalco) alumina refinery in Clarendon, Jamaica.

The expansion will increase the capacity of the refinery by 25 percent to 1.25 million tonnes per year. The Clarendon refinery is a 50-50 joint venture between AWAC and the Jamaican government.

Jamaica also announced the removal of a 28-year-old levy on bauxite from Jamalco in 2003, when the expansion was slated for completion.

The removal of the levy and the expansion, along with a restructuring of the labor force at Jamalco, will lower costs at the refinery by 30 percent, an Alcoa spokesman said. "The new technology will also lower our costs and it will be one of our better-cost refineries;" he said.

Alain Belda, Alcoa's chairman and chief executive officer, said the relationship between the Jamaican government and Alcoa had been strong for the past 43 years and both were committed to making Jamalco a "world-class and globally competitive facility."

"The reduced costs to be achieved from the introduction of new technologies, lower raw materials costs and improved efficiencies will bring Jamalco in line with our other low-cost facilities in the refinery system;" Belda said.

Alcoa said it had no other plans to build a new facility in Jamaica at this time and was just focusing on the Jamalco expansion, its only operation in Jamaica.

More investment creating newer and larger facilities should allow Jamaica to compete better with plants in Australia, officials said.

A local newspaper, the Jamaica Observer, reported that Jamaica ranked in the lower half in efficiency ratings of the world bauxite and alumina industry but had made substantial gains since the second half of the 1990s under an aggressive plan to reorganize the industry.

Jamaican Prime Minister P.J. Patterson said that Alcoa's involvement in Jamaica had contributed to a transformation of its economy. "Alcoa's already significant contribution to the long-term development of Jamaica will continue;" he said. "We expect also that its outstanding record of support for community development in Clarendon will be maintained."

In April 2002, Alcoa Chairman and CEO Alain Belda and the Prime Minister of Jamaica Hon. P.J. Patterson signed an agreement for a 25% upgrade of the Jamalco refinery. This expansion took the facility to 1.25 million metric-tonnes-per-year and is expected to increase production and generate efficiencies that would also simultaneously reduce production costs. The construction phase for the project was completed in December 2003 ahead of schedule and within budget.

In 2004, a further expansion was proposed to more than double refinery capacity to 2.65 million tonnes.

What is Jamalco policy on Air pollution?

Because air pollutants can be highly visible and their harmful effects easily discernible, laws to protect air quality were first enacted early in the 18th century. Air pollution was then considered to be a local problem confined to great industrial cities. By the mid-1900s, when "city pollution" was judged to also affect surrounding areas, the condition became regional in nature. In the early 1970s, the issue acquired more global proportions as the complex facets of acid deposition began to be discussed at the national and international levels. Now, evidence is

building that longer term, more subtle effects of air pollution may supplant immediate concerns, and pressures for additional regulatory action are increasing.

In addition Alcoa's position is as follows:

Alcoa supports efforts to utilize voluntary programs and market mechanisms to improve environmental quality. Self-regulation has the potential to effectively address environmental issues. This concept is further reinforced by the increased publications of emission information, the requirements of environmentally aware shareholders, and demands of customers for products from environmentally responsible industries and processes. As part of a broad based Strategic Environmental framework, Alcoa has established the following targets for air emission reductions (from the year 2000 emission levels) throughout the worldwide system of plants:

60% reduction in SO₂ by 2008

50% reduction in VOCs by 2007

40% reduction in NO_x by 2008

80% reduction in airborne mercury by 2008

255 reduction in GHG emissions by 2010 (from a 1990 base)

Alcoa will continue to encourage the use of cost-effective programs and work to ensure that regulatory programs designed to supplement voluntary goals such as the ones selected by Alcoa are practical and based on good science.

Now that we know Alcoa's position and policy if we want Green and environmentally friendly FDI 7/24 the Government and its environmental agency NEPA must do the necessary due diligence prior to accepting FDI.

Failure to do so the country will be targeted by other companies worldwide who are not necessarily good corporate citizens like Jamalco and the people of Jamaica will suffer.

How is Corporate Governance Relevant in Developing Countries?

"Low-income countries cannot simply adopt the corporate governance norms of more developed nations."

Tatiana Nenova, Financial Economist in the Corporate Governance group at the World Bank.

Promoting fairness, transparency and accountability in how private corporations are operated is essential to **sustainable economic development**. Regulating the relationship between corporate managers and shareholders can help private-sector growth and improve a country's investment climate.

While the Parmalat and Enron scandals have increased the attention given to corporate governance in developed countries, this prominence is not prevalent.

In fact, there are many challenges to establishing good corporate governance standards in developing countries like the members of CARICOM, such as:

- Minority investor protection isn't available or adequately enforced;
- Costly corporate and securities law reforms are deemed unjustified, or of low priority;
- Few firms are publicly listed and many lack true liquidity; and
- Corporate governance is not seen as applying to non-listed companies.

To ensure that they are effective, corporate governance standards must be tailored to the unique needs of CARICOM countries. For example, there is no need for over-sophisticated legal reforms such as intricate public tender-offer procedures in a country where control changes are rare and friendly. Key concerns include

revenue appropriation by controlling shareholders, [disclosure](#), and enforcement. Special attention should be given to ensure simple and transparent rules, thus greatly facilitating enforcement.

1) Which corporate governance mechanisms really matter in CARICOM developing countries?

2) Which corporate governance issues are relevant to large non-listed firms?

What are the pros and cons to creating incentives for large unlisted firms to list?

How should a menu of corporate governance options for low-income countries be customized with priorities for reform, without appearing too broad, vague or over-ambitious?

3) Is protection of small shareholders a luxury in CARICOM countries?

4) How can policymakers ensure fair and credible enforcement?

Corporate governance has been a dominant policy issue in developed market economies for more than a decade, lately particularly in Continental Europe and Japan. In the transition economies it took some time for corporate governance to climb the ladder of policy priorities, but since the mid-'90s it has been one of the most hotly contested issues. In the wake of the Asian Crisis, corporate governance has also become a catchword in the development debate.

Countries and stock exchanges are competing to produce corporate governance guidelines, and OECD is about to publish its own principles.

But how important is corporate governance? For some, it is among the most important policy issues of all, others claim its effects are second-order. These differences in opinion may reflect the fact that people mean different things when they use the concept. Another explanation could be that corporate governance is not always important, but that it matters very much when it matters; it certainly seems to be more important in some phases of a firm's life cycle than in others.

Corporate governance is also likely to matter more in certain contexts or certain phases of economic development than in others.

Ultimately, of course, when and how much corporate governance matters is an empirical question. A recent series of articles has begun to address these issues from a comparative empirical perspective, promising more precise definitions of the corporate governance problem and better measurements of its impact on economic growth (LaPorta et al., 1997, 1998, and 1999a; for simplicity we will refer to their three main articles as LLSV where a more precise reference is not absolutely necessary). The authors - Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny - raise a range of important questions concerning the interaction between law and finance, and more broadly about the role of institutions in economic development. Their articles have already given rise to a cottage industry of research on the interaction between law and finance.

Recent contributions analyze the effects of legal rules protecting investors and the general quality of the legal system on, for example, the development of the financial system (Levine et al., 1998), the impact of macroeconomic shocks (Johnson et al., 1998), the cost of capital (Lombardo and Pagano, 1999), and corporate behavior and industrial growth (LaPorta et al., 1999b; Rajan and Zingales, 1998, Carlin and Mayer, 1998). In many cases the explanatory power of the legal variables is very strong, suggesting that the potential implications for policy are important.

The document statistically and explain theoretically cross-country variations in ownership concentration and financing arrangements. Their main argument is that when the legal framework does not offer sufficient protection for outside investors, entrepreneurs and original owners are forced to maintain large positions themselves to align their incentives with other shareholders (Shleifer and Vishny,

1997). In other words, countries with poor shareholder protection should have more concentrated ownership structures. Support for this hypothesis, and they argue that differences in investor protection have implications for corporate behavior and economic growth.

This literature is based on the premise that the main corporate governance problem is self-interested management and weak, dispersed shareholders. The need to raise external finance determines the structure of the firm and the legal framework in which it operates. In this sense the literature follows a long tradition. However, in their quest to understand the interaction between the legal framework and corporate governance, the contributors have shown that the empirical context from which they derived their worldview is highly unrepresentative when taken beyond the United States and the United Kingdom. A rapidly increasing body of cross-sectional studies and comparable country studies demonstrate clearly that the widely held firm is a rare phenomenon in most countries (see LLSV (1998b) and Barca and Becht (1999)). Most firms in the world, even listed firms, have a dominant owner.

Moreover, this shareholder is very often involved in the management of the firm. Sometimes, but rarely, a bank will play this role, but in most cases a family or the state holds such a dominant stake. This pattern is strong on the European continent, but it is even more pronounced in developing countries. In the economies in transition, ownership structures are still not well established, but widely held firms are extremely rare, even in countries that opted for early mass privatization through vouchers.

The realization that the closely held firm is the dominant form of governance profoundly

affects how we conceive of the corporate governance problem and its policy implications. In the debate about ownership and control, the focus shifts from conflicts between management and shareholders to a three-way conflict between large block holders, managers, and minority investors. Furthermore, the identity of investors comes into play, and it becomes important who monitors them, what their incentives are, and how they are constrained by the legal framework. When the firm is closely held, the emphasis shifts from shareholder-oriented governance institutions such as boards of directors, general shareholders meetings, and takeovers to a broader set of devices for re-designing ownership and control, such as the use of dual class shares, pyramiding of share holdings, cross-ownership, managerial networks, and block trading. And in the analysis of capital market activity, the paradigm of the competitive stock market must be abandoned in favor of models of bilateral negotiations, block holder conflicts, and market design. In particular, with closely held companies, takeover markets operate very differently. Often, outright hostile offers are literally impossible when one owner controls the majority of the shares, and most control transactions take place outside the official exchanges.

To make policy recommendations we, therefore, need to define the corporate governance problem in a particular country with regard to its prevailing institutions. In particular, the predominant corporate governance problem in a transition country is likely to be different from that of a developing economy, which in turn is different from that of a developed market economy. Corporate governance issues also vary substantially across developed market economies (see, for example, Berglöf, 1997; Gugler, 1998; and Barca and Becht, 1999). These differences will affect the implementation of corporate governance recommendations.

Developing countries probably are an even more heterogeneous group than developed market economies in their basic legal frameworks, corporate ownership, and structure of the financial system. This fact suggests that few general implications can be drawn for these countries, but there are other important considerations when one takes the insights from the literature.

One feature that stands out in most studies of ownership and corporate control in developing countries is the close ties between business interests and government, often called crony capitalism - as Bhagwati (1993) has put it nicely for the case of India, the economy is enmeshed in a « kafkaesque maze of controls ». This is not a corporate governance problem in the traditional strict sense, but it affects corporate governance in our wider notion, because large family owners often use their influence to limit competition, obtain favorable finance from the government and in other ways alter the game in their favor. Soft budget constraints are common in these arrangements. Crony capitalism can be a strong deterrent to outside investors, in particular when a country is exposed to negative macroeconomic shocks.

Some of indicators concerning the « rule of law » capture elements of this political dimension, but we would argue that this side needs to be developed further. For example, Johnson et al. (1998) demonstrate that the measures used by the literature explain a significant part of the variation across countries in how much they were affected by the Asian crisis. An interesting question worth exploring is why the similar ownership structures that lead to crony capitalism in developing economies do not lead to the same results in Continental Europe.

The answer to this question should be closely related to the issues addressed by the literature. The strength and quality of government is likely to be part of this answer, but features such as competition law and tax law will certainly also play a

role. Crony capitalism requires remedies other than investor protection, but it may be that corporate law can help to dismantle some of these unhealthy structures by offering opportunities for a broadening or phasing out of current ownership.

THE MEDIA AND WINNING ELECTIONS

One central claim for the value of democratic elections, whether within parties or between has been their potential for civic education.

Understanding under what conditions people learn about public affairs from different channels of communication provided by the news media and parties, should be carefully noted by all politicians who wish to enter Gordon House and remain there.

In particular, much of the previous American literature assumes that newspapers are more effective channels of political information than television news. This poses three questions:

(i) Is this also the case in other countries where the press and television differ systematically from the American model? (ii) What are the effects of new media that blend print and visual components like party websites? And (iii) do any learning effects vary by type of voter?

We looked at the literature with regards to the June 2001 British general election campaign. Learning about the government's record and party policies is monitored following exposure to campaign coverage in five outlets: tabloid and broadsheet newspapers, television news, election broadcasts by the major parties, and party websites. Using a typology based on voter's prior cognitive mobilization and strength of partisanship, voters are classified into four major types: apoliticals, ritual partisans, deliberators and cognitive partisans.

Studies in cognitive psychology, communication studies, public opinion, and political behavior have explored how citizens learn about public affairs from the

news media and parties. But how and under what conditions do campaign communications influence political knowledge? In particular, much of the previous literature, based on the particular characteristics of the American media, assumes that newspapers are more effective channels for conveying political information than television news. The proliferation of outlets and structural changes in the news media during the last decade poses three questions: (i) Does print continue to trump audiovisual media today? (ii) How do the effects of new information sources like party websites compare with older media like TV and newspapers? And (iii) does learning vary by type of voter, such as by prior levels of partisanship, interest and cognitive skills, so that different types of voters learn best from different types of media?

Using a feasible method of measuring the effects of campaign learning and replicating their previous study in 1997 (Sanders and Norris 1998, Norris et al. 1999), used a large cross-section of the public that is broadly representative of the Greater London electorate, involving over 900 participants selected by quota sample, with experiments conducted in the midst of the June 2001 British general election campaign. A rolling callback procedure after the election monitored the persistence of any effects. This combination of an experimental design with a broad cross-section of the public in a natural setting allowed them to draw causal inferences that have application well beyond the particular population included in the experiments.

The analysis confirmed that:

(i) In the midst of the campaign, prior to the experiments, British voters displayed widespread ignorance about party policies on some of the key issues in the campaign, such as Europe, asylum seekers, and taxation; (ii) after exposure to the media, there were substantial gains in knowledge about prospective party policies and, to a lesser extent, about the government's retrospective record; (iii) the

knowledge gains about party policy were similar across TV news, broadsheet and tabloid papers, and party websites (although not party election broadcasts) even after applying the standard battery of social controls. (iv) The learning effects were fairly evenly divided among different types of voters. This provides insights into how voters learn, the role of the news media and party communications in this process, and the broader implications that flow from this understanding.

Shabba, Beenie Man, Vybz Cartel etc.....: The Approach

The continuous attack by the group outrage on Jamaica's reggae superstar and Grammy winner Beenie Man must be of concern to all Jamaicans not only in Jamaica but worldwide. However the approach has been to write letters whether via email to the newspapers or by email to our friends to pass around. This approach is wrong. When Michael Jackson was arrested for alleged child abuse his fans worldwide came out to support in a strong coalition. Where is the Beenie Man fan club? We have failed miserably to pull on the case study of Shabba Ranks and we are making all the same mistakes.

Shabba won Grammys back to back in consecutive years Shabba was larger than life to quote him” *Shabba in the morning Shabba at lunch time Shabba in the evening Shabba*

*at night time... ”. However, he sided with Buju Banton on *Boom bye bye* and within 24 hours he was pulled from every major show, all interviews on major networks cancelled him. Even though he also apologized he sank in to oblivion. Clearly, this is not what we want for Beenie man.*

What this requires is a **Coalition For the Support Of Dancehall (CFSOD)**, which the artistes under siege will fund.

Visualize, at each Major concert of Beenie Man 5,000 CFSOD members in T-shirts on the back of shirt, WE SUPPORT DANCEHALL WORLDWIDE and on the front WE LOVE OUR JAMAICAN DANCE HALL ARTISTES.

This grassroots approach is what is needed not the intellectual letter writing. If outrage is demanding rights then, the DJ's must demand their rights also; the freedom of speech similarly to the KLU KLUX KLAN in the United States of America and the Skinhead Racists in The United Kingdom. This is in essence using Globalization against them.

If we wait then Beenie Man could well end up like Shabba Ranks.

THE STUDENT LOAN BUREAU AND RAPID ECONOMIC DEVELOPMENT.

Our main business is not to see what lies dimly in the distance but to do what lies clearly at hand. - **Thomas Carlyle**

Minister Paul Robertson at the launch of the World Investment Report (WIR) 2004 recently said clearly services is the way forward for Jamaica.

Number 3 of the Mona Declaration On Tertiary and Higher Education states:
 ...Since tertiary and higher education promote both personal growth and societal goals, the formula for financing tertiary education should be based on a combination of government support and an expanded loan scheme to enable a larger number of students to finance their their education as an economic investment.

What If:

The Students' Loan Bureau was organized as thus:

- 1) Students would be financed 100% to the PhD level.
- 2) Book & Accommodation Grants/Loan Scheme.
- 3) Interest rate would be 10% effective rate (not 25% effective as it is now)
- 4) Loan term would be 15-25 years for repayment.

Madness, no, Economic Development, Yes.

The question we would ask next is twofold: 1) How would we afford this?

2) what would we do with all these graduates as we are having a problem now finding jobs for them?

They would be bonded, at the end of the period they would be employed by Government or placed in CARICOM to facilitate CSME, in addition with the advent of FTAA in 2005, the rest or excess demand would be facilitated.

As a result of Financial Globalization the Students Loan Bureau could get cooperation from International Student Loan Finance houses that would pick up the financing.

Food for thought, no. 21st century thinking. Are we in the 21st century?

VENTURE CAPITAL TRUSTS FOR FUNDING JAMAICAN SMES?

There is a trend in Small –Medium Enterprises in Jamaica not to take in a partner for expansion but rather to go to a bank and mortgage the company's assets for an extended period. The alternative could be venture capital assistance. The United Kingdom has a financial vehicle called a **Venture Capital Trust Scheme**, which was started in 1995. Could this model work in Jamaica for Sustained Small Business Development (SSBD)?

The Venture Capital Trust scheme is designed to encourage individuals to invest indirectly in a range of small higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange, by investing through Venture Capital Trusts (VCTs). So, if you invest in a VCT, you spread the investment risk over a number of companies.

VCTs would be companies listed on the Jamaica Stock Exchange, and are similar to investment trusts. They are run by fund managers who are usually members of larger investment groups. Investors subscribe for, or otherwise acquire, shares in a VCT, which invests in trading companies, providing them with funds to help them develop and grow. VCTs realise their investments and make new ones from time to time.

VCTs must be approved by us for the purpose of the scheme. Approval is given if they meet certain conditions. If you invest in them you may be entitled to various income tax and capital gains tax relief, and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments.

Approval of a VCT means that it currently satisfies the requirements enabling investors to qualify for certain tax reliefs.

Tax reliefs are available only to individuals aged 18 years or over, and not to trustees, companies or others who invest in VCTs.

There are two **income tax reliefs**, they are exemption from income tax on dividends from ordinary shares in VCTs ('dividend relief'), and income tax relief a percentage of the amount subscribed by the individual for **new** ordinary shares which carry no preferential rights or rights of redemption throughout the period of three years from the date on which they were issued . You can get this relief for the tax year in which these 'eligible shares' were issued, provided that you hold the shares for at least three years .

There are also two **capital gains tax** (CGT) reliefs, they are exemption from CGT on gains that arise if you dispose of your ordinary shares in VCTs ('CGT exemption'), and deferral of capital gains where you get income tax relief on an investment in VCT shares ('deferral relief'). You can defer a total amount of gains up to the amount invested in the VCT shares. The VCT shares must be issued in the period beginning 12 months before and ending 12 months after the gain arises. You can get two of the reliefs, dividend relief and CGT exemption, for newly issued shares and second-hand shares acquired, for example, through the Stock Exchange. But income tax relief and deferral relief can be claimed only if you subscribe for new shares.

You can get VCT tax reliefs if you acquire shares in VCTs up to a pre-determined maximum per tax year. You can claim the reliefs, where applicable, from the Tax Office, which deals with your tax affairs. To claim deferral relief, you must be resident or ordinarily resident in the Jamaica both when you make the disposal-giving rise to the gain and when you invest in the VCT.

In some cases you will not be entitled to income tax relief for a subscription for VCT shares. For example if a loan is made to you or an associate of yours (such as

a business partner, your spouse, or a close relative) on terms which are linked to the share subscription.

To get the tax reliefs offered by the VCT scheme, you must invest in a company, which has been approved as a VCT. The main conditions a company must satisfy for approval as a VCT are that its income for its most recent accounting period must have been wholly or mainly from shares or securities throughout that period, at least 70% (by value) of its investments must have been ‘qualifying holdings’, that is shares or securities in companies which meet the conditions of the scheme and which were issued to the company and have been held by it ever since throughout that period, at least 30% (by value) of its qualifying holdings must have been holdings of ordinary shares with no preferential rights or rights of redemption at no time in that period must its holding in any company have represented more than 15% (by value) of its investments throughout that period, its ordinary shares must have been listed on the Jamaica Stock Exchange it must not have retained more than 15% of its income in that period from shares or securities.

To retain approval, the company must continue to satisfy all the conditions during each later accounting period.

If a company issues any of its shares or securities to a VCT, it must meet certain conditions if those shares or securities are to form part of the VCT’s qualifying holdings. These conditions concern both the type of company and the size and mix of investment. There are, for example, requirements as to the companies

- Unquoted status
- Trading activities
- Gross assets

- Independence, and subsidiaries.

Unquoted status

The company must be an unquoted company for VCT purposes. This means that none of its shares, stocks, debentures or other securities can be listed on a recognised stock exchange.

Trading activities

The company must exist for the purpose of carrying on a ‘qualifying trade’ or be the parent company of a trading group whose business as a whole meets the scheme’s rules. The funds received from the VCT must be used for the purpose of a qualifying trade carried on wholly or mainly in the Jamaica.

Most trades qualify, provided that they are conducted on a commercial basis with a view to making profits. A trade will not qualify if one or more excluded activities together make up a ‘substantial part’ of that trade. This will depend on the relevant facts and circumstances, but we generally consider that they do where they amount to more than 20% of the trade. The main excluded activities are dealing in land, financial instruments, or in goods other than in the course of an ordinary trade of retail or wholesale distribution financial activities, property development, or providing legal or accountancy services leasing (including letting assets on hire, except in the case of certain ship-chartering activities) receiving royalties or licence fees, except where these arise from an intangible asset such as a patent or know-how, most or all of which has been created by the company (or one of its subsidiaries) providing services to another company in certain circumstances where the other company’s trade consists to a substantial extent in excluded activities.

Gross assets

The value of the company’s gross assets must not exceed \$15 million immediately before the VCT makes its investment, and \$16 million immediately afterwards.

Independence

The company must not be controlled by another company, or another company and a person connected with that company.

Nor must there be any arrangements for such control. For this purpose a company controls another company if it directly or indirectly possesses, or is entitled to acquire more than 50% of the company's share capital or issued share capital, or more than 50% of the voting power in the company, or enough of the company's issued share capital to entitle it to more than 50% of the company's income if it were all distributed to the company's participators, or more than 50% of the assets of the company that are available for distribution to the company's participators on its winding-up.

For this purpose all loans (except loans convertible into shares) and fixed-rate preference shares that do not carry voting rights are ignored.

Subsidiaries

To meet the rules of the scheme, the only companies that the company may control are qualifying subsidiaries. A qualifying subsidiary must not be controlled by any other person. In addition not less than 75% of its issued share capital and not less than 75% of its voting power must be held by the company, or by another of the company's subsidiaries, and the company or another of its subsidiaries must be entitled to receive not less than 75% of its profits, or, if it were wound up, 75% of its assets.

If the money raised by the company by issuing its shares or securities to a VCT is to be used by a subsidiary, then the requirements for **that subsidiary** must be satisfied at the 90% level rather than at 75%.

Other requirements

Other rules concerning the investment include rules relating to the maximum size of the investment in any particular company that can count towards a VCT's qualifying holdings how the money invested by a VCT is used and the period within which it must be used, and the need for a minimum proportion of the total investment made by a VCT in any particular company to consist of ordinary shares with no preferential rights or rights of redemption.

This structured approach, clear and transparent, perhaps, just perhaps could be the winning formula that has evaded SMEs in Jamaica.