

BUDGET DEBATE PRESENTATION, TUESDAY, MAY 10, 2011

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PRIME MINISTER OF JAMAICA

This debate has been conducted in the manner to which we have long been accustomed. One side seeks to showcase what has been achieved, the other side seeks to demonstrate how little, if any, has been achieved.

I question whether the interests of the people are best served by this approach. I question whether this format, so often defined by point-scoring and finger-pointing, allows for the frank, dispassionate discussion that needs to take place about the condition of our country, where we are, where we want to go and how we propose to get there.

Not that this debate has been acrimonious, but how useful has it been in enabling the people to better understand the issues that confront us and how they are being dealt with? And if the people don't fully understand the issues, who are we to blame but ourselves?

Next year, we will mark our 50th year of independence. It will be a time to celebrate for, notwithstanding our failure to realize the dreams of independence, we have made progress under successive administrations. But it will also be a time for reflection and in that reflection we dare not deny that we should have done better. We are, ourselves, largely to blame for the fact that we have not reached the level of development of Singapore for in 1962 we were both at the same stage of development.

Changing the game

In confronting that issue, we have recognized that fundamental changes have to be made to the way we govern ourselves and manage our business. We have to take a game-changing approach. This budget reflects a significant part of that game change.

In the ongoing debate in the United States surrounding their budget, what is noticeable is the constant concern expressed among American voters about the need for budget cuts, reducing the deficit, curbing the excessive borrowing. They have that concern because they know that more spending, more borrowing and bigger deficits mean more taxes. It means higher interest rates, a weaker currency, a rougher time for businesses and fewer jobs.

Here in Jamaica, the conversation is starkly different. The constant demand is for us to spend more. It is not due to a lack of compassion that we don't do more, pay more and spend more. To borrow the analogy used by the Leader of the Opposition, every family has to fit its expenses within the resources that it has. It may have to borrow to make those ends meet but every dollar that it borrows has to be paid back sometime and it starts paying the interest the moment it takes out that loan. That is our reality! The suggestion that if we cared for the poor we would do more.....that is the fantasy!

We can't blame the people for not understanding that if we ourselves either don't understand it or don't want the people to know that we understand it?

It is within those tight parameters that the budget has been framed and presented. But it is more than that. It is an integral part of an effort to reform and transform government's fiscal arrangements to create the conditions for investment and growth without which we will not be able to do the more we need to do or care for the poor the way we want to do.

Making government an enabler, not an impediment

The management of government's finances over many years has been the biggest stumbling block to our growth and development. We have seen in the past where fiscal and monetary recklessness led to inflation of over 100% in one year alone! The efforts to correct that led to the collapse of major financial institutions, the devastation of businesses and severe damage to the propensity of people to invest in the real economy.

For too long, we have been unwilling to recognize that government was the problem. So whenever the fallout came, whenever the ends could not meet, we borrowed to bridge the gap. Today, 48.34 cents of every dollar we spend goes to service and repay that debt. Another 28.57 cents is used to pay wages and pensions. 23.09 cents is all we have left to do all the other things that government is required to do.

Taking tough decisions

Making the necessary corrections....changing course....has not been easy and it has been made more difficult but more urgent by the impact of the global recession that has made tough decisions not just necessary but inescapable. Since the start of the recession we have lost US\$2.7 billion in export earnings, J\$16.5 billion in bauxite revenue and J\$5.7 billion in GCT. This is not fantasy; it is our reality! It is the burden we carry when we sit at the bargaining table with public sector workers who demand wage increases; it is the burden we carry when we try to pacify citizens protesting against bad roads or lack of water; it is the burden we carry when we are called on to roll back taxes.

We are not the only country confronted with this reality. When Canada was faced with a similar reality, it cut government spending by 20% and laid off 40,000 public sector workers. Today Canada's economy is doing well despite the recession.

The United States is now facing this reality and much of the debate in Congress has been about that. They are grappling with a fiscal deficit of 10%; ours is 6%. It is this reality that almost resulted in a shutdown of the federal government last month before the President and the Congress agreed on cutting the budget by US\$38 billion this year with further cuts to be negotiated over the next 4 years.

The United Kingdom was more aggressive. Their fiscal deficit is 11.4%. Prime Minister Cameron is cutting his budget by 19% over the next 4 years. Welfare

benefits are being reduced and 500,000 public sector workers are to be laid off. That is how they have chosen to deal with their reality!

How have we dealt with ours? If we take out debt service payments, we have reduced our budget in real terms by 15% over the last two years. Some see this as a lack of compassion for the poor. The experts say we have not gone far enough, the cuts should have been deeper, our decisions should have been tougher.

How much tougher could we have been? Some countries chose to reduce wages to public sector workers; some restricted them to a 4-day week; some even cut pensions. We have not gone there! But insisting that the government must spend more on this and spend more on that in order to do more for the poor will drag us there! Insisting that we must pay wage increases that we simply cannot afford, however reasonable they may be, will drag us there! Clamouring for a rollback of taxes when the revenues cannot cover what we are already spending will drag us there. That is the reality!

I ask the Opposition to understand that we cannot afford to go there; I ask the unions to understand that we cannot afford to go there because what you might gain today would disappear in no time when the forces of inflation and devaluation respond in their fury.

As I have said before, it is not easy for the people to understand these complexities and when they don't understand, they form judgments and get angry. There is a notion that government can use its enormous power to do anything it wants to, like rolling back gas prices and electricity costs. We have already reduced the tax on gas at a cost of \$3.5 billion. We cannot go any further.

A friend of mine recently suggested that government buy back JPSCo in order to reduce the cost of electricity. Where would those hundreds of millions of dollars come from? A recent caller on my radio programme suggested that the

way to create jobs is for the government – not the private sector - to build more factories. The Opposition Spokesman on Finance has proposed that TEF, NHT and JDIP funds be used to create jobs for the poor. We have been there and done that but we still have not learned that the government cannot be the employer of either first or last resort. The government already employs over 100,000 people. Some argue that that is too much. It is certainly arguable that if we employed less people we would be able to pay them the better wages they deserve.

The game-changing strategy

This budget is consistent with a clearly defined, coherent strategy to fix the things that are wrong with government, things that have humbugged investment and growth and made the government itself a major impediment to the country's development.

What are the core elements of this strategy?

- To eliminate the fiscal deficit and build up surpluses to cushion ourselves through external shocks and natural disasters;
- To reduce government borrowing so that more resources are available for those who want to invest, do business and create jobs;
- To reduce our debt to GDP ratio and the cost of servicing that debt in order that more of the taxes we collect can be spent in critical areas such as education, security and justice, health and infrastructure;
- To reform our tax structure and spread the tax burden more equitably to encourage people to invest, do business and create jobs;
- To transform the bureaucracy into an efficient, service-delivery-oriented institution that encourages and facilitates doing business and creating jobs;

- To provide a framework of transparency and accountability so that people will have confidence in what the government is doing and how it is managing their money;
- To enable Jamaica to be globally competitive in areas that will attract investment, create jobs and provide prosperity for our people.

All of these core elements are aligned to the overarching goal of Vision 2030 of making Jamaica ***the place of choice to live, work, raise families and do business.***

We cannot achieve this by following the pathways of the past. We need to change the game. We have started that game change and this budget and the results we have seen so far reflect this. But we have a lot of work to do and a far way to go to achieve these outcomes.

Government's share of GDP

When a country's budget accounts for more than 50% of its GDP, that is a country that is going nowhere either fast or slowly. That is a country whose progress is being held back by its government. Let's look at the figures for some fast-growing economies:

Argentina	Columbia	Japan
25%	27%	14%
Brazil	Dom Rep	Malaysia
26%	19%	26%
Chile	India	Peru
18%	27%	17%
China	Indonesia	Singapore
21%	19%	17%

The predicament of the US is that their percentage has risen in recent years from 20% to almost 40%. That is part of the crisis they are now grappling with.

In 2007, Jamaica's figure was 56%. This budget reflects a decline to 43% - still too high but headed in the right direction. **That is a game change!**

Jobs are created and economic growth occurs when people invest, do business to produce goods or provide services that have value and for which there is a demand. It may be a big investment such as the construction of 900 additional rooms at the Fiesta Hotel in Hanover. It may be a medium size investment such as Grace Kennedy's pepper mash plant in St. Elizabeth. It can be a small investment - the man who sets up a welding shop or the HEART graduate who opens her own beauty salon, each employing a few other people. That is how jobs are created. But investment requires capital.

Investors come in two types: those who have money to invest and those who have to borrow money to invest. That is the main reason why banks exist. Banks are not just a place where you put your savings for safekeeping. The bank has to lend that money to someone in order to earn the interest that they need to pay you, pay themselves and provide a profit to their shareholders.

So when that welder or HEART graduate walks into the bank and says here is my plan but I need \$250,000 or \$1 million to purchase the equipment and fix up the place, they are not begging a favour, they are offering the bank business that the bank needs.

For years, by and large, the banks felt no necessity to entertain them. For years, banks would say: why should I risk lending you my depositor's money when the government needs to borrow it and is willing to pay high rates of interest to get it? So the welder and the HEART graduate went through the door dejected and rejected.

Five years ago, 64% of banking system credit was gobbled up by government. Today, that figure is down to 39%.

For years, if you were an investor that had money, rather than investing it in something that would produce goods and services and create jobs, you were better off investing it in government paper for that provided a better return and more certain profit than any kind of business you might have contemplated.

If you were an investor that needed to borrow, the high interest rates would drive you away. Today, interest rates are the lowest they have been in 40 years.

For most of the last 40 years, we have had to keep our eyes on the exchange rate. We would see it wobble and we would rush to buy the dollar before it wobbled out of our reach. Our reserves would dip and the market would get jittery. Our reserves are now at the highest level ever.

Inflation for the last fiscal year stood at 7.8%. For the last 6 months, it was 6.2% annualized.

When in the last 40 years have we had low inflation, low interest rates, a stable exchange rate and high foreign reserves all at the same time?

Let us be clear. We are not out of the woods. The game has changed but the runs have to be put on the board. The lasting dividends from this game change are yet to be reaped. I, too, get impatient sometimes. The low interest rates have not yet translated into a rush for loans and job-creating investments. It takes time for people to find their bearings and respond to the game change especially coming out of a culture where government paper was the best game in town. It takes time for ideas to be transformed into bankable projects. There is still concern about the global environment and the effect it will continue to have on the demand for goods and services. The effects of the FINSAC debacle still linger in the minds of business people – some are afraid to borrow, afraid to take risks again. But we are creating the conditions that will make our entrepreneurs excited about investing once again.

Facilitating investments

The strategy is geared to encourage investments of all types and sizes. We want to see the big investments for they can have a big impact with a multiplier effect stimulating other investments. There are investments to be undertaken in manufacturing, logistics, telecommunications, shipping, tourism, entertainment, sports, energy and agriculture and the respective Ministers will speak to these in the sectoral debate.

Equally important are the small and medium size investments. They require less capital and yet create more jobs and penetrate every town and village across the island.

Microenterprises are another important source of economic activity providing own-account employment for thousands of persons. They are at the greatest disadvantage in securing loans through the commercial banking system for various reasons including inadequate collateral and the lack of formal training or experience in business. We have sought to bridge that gap by way of special programmes offered through the DBJ. We established a special Micro Finance Lending Window and last year disbursed loans totalling \$228.6 million to 4,215 microenterprise operators – an average loan amount of \$54,000. The DBJ provided a further \$947 million in loans to 207 small and medium-size businesses, \$351 million of which was disbursed to small farmers through the PC Banks. This year, the DBJ will be providing additional loan financing of \$2.3 billion with a significant portion being earmarked for micro, small and medium size businesses.

This year, the DBJ is introducing an innovative programme to enhance the operation of the microfinance sector. It has signed an agreement with a service provider to introduce a pilot project called “Mobile Money” as a means of providing access to financial services to microenterprise operators enabling them to conduct their financial transactions with their cell phones. It will reduce transaction costs with the microfinance institutions enabling them to

further reduce interest rates. The DBJ is awaiting the approval of the Bank of Jamaica.

The ICT/Business-Process-Outsourcing sector is one in which Jamaica is making significant strides and has established its competitiveness. They come in various sizes and configurations. It is labour intensive and can create a significant number of jobs in the short and medium term. We want to facilitate more enterprising Jamaicans to establish business in this sector. The DBJ will be providing a special line of credit of \$1.7 billion to enable more Jamaicans to capitalize on the opportunities available in this sector.

Venture capital funding

Apart from the difficulty in obtaining loan financing, a major impediment to small and medium-size businesses is their equity deficiency. When you have little or no capital and you have to borrow the capital you need, you start out so heavily leveraged that it becomes a burden on the business, weighing it down before it can even take off. The idea of venture capital has been mooted for a long time but has never had the benefit of a serious, sustained effort.

I asked the Group CEO of Grace Kennedy, Don Wehby, to head up a team to explore ways in which we could give life to this idea and I have today tabled its report which recommends, first, the establishment of a regulatory mechanism to create a proper framework for venture capital financing. What is envisaged is not a single venture capital company that would hold equity in businesses. What is intended is the creation of a framework with appropriate fiscal incentives that would facilitate the establishment of several venture capital funds operated by different entities mobilizing resources from institutional, corporate and individual investors. Businesses that require start-up capital or capital to expand would offer shares in return for the capital invested. It makes good sense and offers several advantages:

- Businesses will be able to secure capital without being burdened by debt;

- The venture capital fund will, through its shareholding and directorship, bring added capability in overseeing the affairs of the business;
- It will offer valuable linkages with other businesses in which it also has investments.

It is not the government that will be providing these venture capital funds although we have not ruled out putting up some of the seed capital to get it started. Now that interest on government paper is no longer as lucrative as it used to be, it is an ideal time to create this new option for investors.

It is proposed that this year, the DBJ, along with other private sector partners, will establish an initial venture capital fund targeting viable businesses that require capital, capacity building and improved governance structures and which are committed to listing on the Junior Stock Exchange within 2-4 years. The fund will be managed by a private sector general partner which will ensure that proper due diligence and monitoring is carried out.

Getting people back to work

I said before that we are not yet out of the woods. We have not recovered from the ravages of the global recession. Our export earnings are less than half of what they were in 2008. People have lost jobs; businesses have been forced to lay off workers – some have even gone out of business. Even self-employed persons have seen their businesses go down because the spending power of their customers has been weak.

Getting people back to work is not going to come about by putting more spending in the budget to finance employment programmes. It will happen when businesses start up or expand, when investors feel that the conditions are right for them to invest in real things, rather than government paper. We are changing the game to make that happen.

Poverty level

We are equally concerned about the number of people falling below the poverty line. The data available is from the Report of the Survey of Living Conditions for 2009 which were tabled in Parliament in November. The SLC 2010 is not yet completed.

The increase in the poverty level is directly attributed to the decline in the economy, loss of jobs and the significant drop in remittances in 2009. The impact of these factors has been mitigated by the provision of increased benefits through the PATH programme, the allocation for which has been increased from \$1.7 billion in 2007 to over \$4.0 billion this year. Even after allowing for inflation, this represents a real increase of more than 60%.

Increased welfare provisions can do only so much to ease poverty. Getting the economy back on a path of growth, doing everything possible to facilitate and accelerate that growth is what will rescue people from poverty. This is our area of focus.

End of the recession

Not surprisingly, the Opposition has made heavy weather of the fact that the economy has suffered 3 years of negative growth with a cumulative decline of 5%. It is a worrying outcome although not unexpected, given the impact of the global recession. Happily, I am able to confirm that Jamaica is now officially out of the recession as in the Jan-Mar quarter the economy registered modest but positive growth. A detailed analysis of the outturn and the projections for the future will be presented by the PIOJ at a press briefing scheduled for Wednesday of next week.

National debt within target

The significant increase in the national debt is an issue that the Opposition has raised – and justifiably so. There is hardly anyone over the last 15-20 years

that has expressed more concern about our increasing debt burden than I. We have had to undertake significant borrowings to help us through the financial crisis and to make up for the falloff in foreign exchange earnings and capital flows. It is to be noted that the Debt/GDP ratio of 128% at the end of March is well within the ceiling of 139% as set out in the Standby Agreement with the IMF. The programme calls for it to be reduced to 100% by 2016 and we are already clearly on the right trajectory to achieve that. If we focus our efforts seriously on investment and growth, we will reach that target even sooner.

Tax reform

The Minister of Finance, in his opening presentation, outlined briefly the approach being taken toward tax reform which is to commence this year. The Leader of the Opposition is correct. Considerable work was done by a committee headed by Mr. Joseph Matalon from as far back as 2003. For reasons that do not need to detain us, the critical components were not implemented.

We commissioned a review of these proposals by a group of consultants provided by the IDB. Mr. Matalon remained engaged throughout that process. We have discussed the proposals with a wide group of stakeholders both at the Partnership for Transformation and at the sector levels. There has been substantial agreement on the proposals. Some elements have not found favour with some groups.

The underlying approach is to reduce taxes as a means of stimulating investment and economic activity. A key element is to encourage more export-oriented businesses because the domestic market is too small to enable us to grow at the pace and to the extent that we need.

I recall speaking last year with President Martinelli of Panama. Anyone visiting Panama will be struck by the pace of investment and the signs of growth. Panama's economy has grown over the last 8 years by 71%. I asked him what

accounted for so much investment taking place. He said “Simple, we reduced taxes”.

If we are to reduce taxes, there has to be a trade-off. The plethora of waivers and incentives will have to be drastically reduced in order for taxes to come down. The mere fact that so many waivers and incentives have to be granted is clear evidence that something is structurally wrong with our tax system.

We cannot delay a major tax overhaul until there is unanimous agreement on every aspect. The measures announced by the Minister relating to estate duties, motor vehicle duties, measures to facilitate loan refinancing and the freeing up of the trade in securities are just one part of the process that is being rolled out at this time. Other elements will be readied for implementation during this financial year. Some will require more time to allow for appropriate adjustments and will be implemented over the next 2-3 years. It represents a bold effort to create a simpler, healthier and friendlier tax environment to support the thrust toward investment and growth.

Tomorrow, the Minister of Finance will table a Green Paper on the tax reform proposals as a means of informing and engaging discussion among the public on this critical issue.

Public Sector Rationalization

I have tabled a Ministry Paper setting out the final decisions as approved by Cabinet relating to the Public Sector Master Rationalization Programme. You will recall that the recommendations of the Public Sector Transformation Unit were presented to the House in July and were examined and reported on by the Public Administration and Appropriations Committee. The details outlined in the Ministry Paper reflect Cabinet’s final decisions having considered these recommendations and comments from a wide range of stakeholders.

It embodies significant restructuring and realignment of government functions, departments and agencies aimed at improving efficiency and cost-effectiveness.

It is among the seven pillars essential for economic growth identified in the Growth Inducement Strategy developed by the PIOJ. It involves more than just a rearrangement of functions and departments. It includes measures to:

- improve the governance structure and practices within government Ministries, Departments and Agencies (MDAs)
- enhance management and accountability functions
- calibrate functions and responsibilities with the required authority and resources
- utilize information technology to interconnect MDAs for effective coordination in the carrying out of functions and delivery of services
- institutionalize appropriate monitoring and evaluation systems.

The rationalization programme is to be implemented on a phased basis over the next 5 years. It is estimated that it will result in savings of between \$40 and \$50 billion over that period. These savings will come primarily from staff reduction and the disposal of assets arising from the privatization and outsourcing of certain functions. Even greater benefit is expected from improved efficiency and productivity.

We had made it clear that the primary objective of this exercise was to improve the efficiency of government, not to cut staff, and that the impact on staffing would ultimately be determined by the final decisions on how MDAs were to be restructured.

As part of a Reform Matrix agreed with the IMF, World Bank and IDB, a census of public sector employees was carried out to verify the accuracy of the number of persons reportedly employed by ministries, departments and agencies. The census revealed that the total number of persons employed to government is 118,163. It is projected that with the rationalization programme that number will be reduced to between 108,000 and 109,000.

Some of this reduction will come from natural attrition. The Opposition Spokesman on Finance, in his comments on the rapidly increasing cost of public sector pensions, questioned the availability of accurate data as to the number of persons due to retire over the medium term. The census has revealed the following:

- 5,137 persons at or above the age of 60 are now due for retirement;
- 10,520 persons between the ages of 55 and 60 are eligible but not yet due for retirement;
- 12,800 persons between the ages of 50 and 55 can retire without loss of pension benefits.

There is indication that some workers may opt for early retirement. But let me hasten to point out that retirement will not fully account for the targeted reduction in staffing. Where persons retire from positions that can be eliminated in the rationalization exercise, those positions will not be filled. However, some of those who will retire will have to be replaced, especially in vital areas such as education, health services and security. Some employees will be reassigned to other ministries and departments which may be below their required staff levels.

In implementing these changes, close consultation will be maintained with public sector unions to minimize as far as possible the effects of the dislocation to the affected employees where this cannot be avoided. Under previous Memoranda of Understanding between the government and public sector unions, some 10,000 employees underwent retraining programmes to improve their skills to give them greater job flexibility.

A significant number of the functions normally carried out by MDAs are to be outsourced or privatized and we will be making every effort to assist displaced workers to seize the opportunity, where possible, to provide those services. The former Government Printing Office provides a good example of how workers can

assume ownership and control of an entity to provide the services for which they were previously employed.

We will have to reckon with the compensation costs of this exercise in terms of retiring benefits and compensation to those who are not eligible for retirement. The Minister of Finance is to have discussions with the IMF as to how these costs can be accommodated within the current agreement.

An issue that must be addressed in this exercise has to do with leave entitlement. Public sector workers are entitled to differing leave packages depending on when they joined the service. Those who were employed prior to 2002 are entitled to 35 working days vacation leave, 14 days sick leave and 14 days departmental leave. Those employed since 2002 when new leave arrangements were instituted are entitled to 14 days vacation leave, 14 days sick leave and 10 days departmental leave. Discussions are being held with the Public Sector Monitoring Committee which includes public sector unions aimed at standardizing leave arrangements across the service.

A matter that must also be addressed is the unlimited accumulation of vacation leave. Vacation leave is intended to provide workers with the opportunity for rest and relaxation so that they can maintain themselves in a good physical and mental condition. The census data shows that public sector workers have accumulated an average of 40 days vacation leave (in one case 360 days or 72 weeks). Indeed, if we were required to make payment in lieu of leave, it would cost the government \$23 billion! Leave management is one of the issues to be discussed with the Public Sector Monitoring Committee.

The rationalization programme will proceed in tandem with the ongoing Public Sector Modernization Programme being led by the Cabinet Office. The Medium Term Action Plan to fulfil the mandate set out in Vision 2030 was approved by Cabinet in November 2009. Its focus is on increasing productivity, the incorporation of performance monitoring and evaluation systems, decentralization and human resource management.

I must place on record our appreciation for the valuable work carried out by the PSTU under the leadership of a distinguished public servant and former Permanent Secretary in the Office of the Prime Minister, Mrs. Patricia Sinclair-McCalla. It was not an easy task and time was made to be of the essence. We owe a debt of gratitude to her and her team.

We are also indebted to the Consultative Monitoring Group led by Mr. Peter Moses who has, once again, stepped forward to give his time and energy to the service of his country. That group did more than monitor the development of the programme. It was intimately involved in the design, fine-tuning and delivery of the programme and I pay tribute to all of its members.

We are grateful, too, to members of the private sector who provided technical assistance at no cost to the government.

The PSTU will remain in place to monitor the implementation of the programme and the Consultative Monitoring Group has agreed to continue its voluntary role in providing oversight and guidance.

Public sector pensions

The Opposition Spokesman on Finance referred to this as a “public sector pension crisis”. He was not being hyperbolic.

There is no segregated pension fund for public sector workers. Pensions are paid directly from the budget. When we took office in 2007, the cost to the budget for meeting these payments was \$12 billion. This year, it has ballooned to \$22 billion. A recent study commissioned by the PSOJ suggests that the cost of pensions for those who have already retired will be \$225 billion for the rest of their lifetime. That figure increases each year as more people retire.

Many countries are facing a similar crisis. Ours is made more severe because our pension payments are frontloaded. Retiring public sector workers have the option to take a portion of their pension in a lump sum payable immediately

after they retire. Most of them exercise that option. So, for example, those 5,137 person due to retire this year, if they all exercise that option, will require lump sum payments totalling \$4.8 billion and annual pension payments of \$1.2 billion thereafter.

People are living longer. People are retiring at higher salaries. The costs will continue to escalate.

A team of World Bank consultants has completed a review of our public sector pension arrangements. Not surprisingly, they have recommended that the current system be replaced by a contributory pension scheme to which both the government and the individual employee would make contributions.

There are significant issues that will need to be addressed. What are the legacy costs for those currently employed and already entitled to pension and how will these be treated? It must be noted that pension entitlement for public officers is protected by the Constitution. Where would the joint pension contributions be placed and who would manage those funds? How would the pension payments be determined – actuarially or by defined benefit? There are certain other issues that will have to be considered such as raising the retirement age from 60 to, say, 65. Life expectancy is increasing and persons are functioning effectively well beyond the age of 60.

Now that the study has been completed, we intend to finalize the proposals for reform and present a Green Paper that will be discussed with the stakeholders and tabled in Parliament later this year.

This matter has to be addressed urgently. The initial cost of reforming the system is likely to be significant with the benefits flowing in later years but the longer we delay, the greater the crisis that the problem will become.

Reform Agenda

The game changing that we need if we are to set ourselves firmly on a path to growth and development is not confined to the management of our financial affairs but involves more broadly how we manage ourselves as a nation and as a people. We recognized this before we came to office and set out in our Manifesto a reform agenda to address issues of transparency and accountability, corruption, the protection of individual rights and other matters relating to good governance. I reaffirmed our commitment to that agenda in an address to the nation almost a year ago.

We have not met all the timelines I indicated last year although we have made and continue to make good progress. The two major reasons for delay where it has occurred is the time necessarily taken for consultations with critical players as well as the work overload that already exists within the Office of the Chief Parliamentary Counsel. In that latter regard, both US-AID and the Canadian government, at my request, have been providing technical drafting assistance and I express my thanks to them.

One initiative that was instituted early in this administration was the appointment of Opposition members to chair Standing Select Committees of the House, similar to what has long obtained with the Public Accounts Committee.

I report on the status of the other elements of this agenda:

(1) Independent investigation of abuse by agents of the State

We have established the Independent Commission of Investigations to protect citizens from abuse by agents of the State including the security forces. In the few months since he was appointed, the Commissioner has shown that he is a game changer.

(2) Whistleblower protection

We have enacted the Protected Disclosures Act to encourage and protect persons in reporting wrongdoing both as a deterrent and as a means of facilitating corrective action.

(3) Investigation and prosecution of corruption

Legislation to establish the Office of Special Prosecutor to investigate and prosecute corruption is in its final stage of deliberations in Parliament. Although I am disappointed that it was not passed in the last session of Parliament, the delay has been occasioned by constructive issues raised by members on both sides which we are working to resolve and I believe that this will lead to improving the quality of the legislation. I have asked the Leader of the House to schedule a resumption of the deliberations on this Bill immediately after the conclusion of this debate.

(4) Reform of defamation laws

A free press and the ability to publish facts without fear of being punished for libel and slander is a vital pillar of our democracy. The report of Joint Select Committee which considered the recommendations of the committee chaired by Mr. Justice Hugh Small for changes to the laws relating to slander and libel has now been considered and adopted by both Houses of Parliament and the appropriate drafting instructions are now being prepared.

(5) Dismantling garrisons

A key element in the dismantling of garrisons is holding political representatives, elected or seeking to be elected, responsible for their actions which encourage or facilitate garrisonization and political tribalism. We propose to do this by strengthening the Code of Political Conduct and providing stringent civil and criminal sanctions for certain breaches of the Code. It was felt necessary to consult thoroughly with the Electoral Commission on the matter and, based on those consultations, Cabinet will now be asked to issue the necessary drafting instructions.

(6) Award of government contracts

We have completed the laborious revision of the procurement rules for the award of government contracts. The next step is to provide for the imposition of criminal sanctions for certain breaches that involve conduct intended to undermine or corrupt the process and for the denial of contracts to persons deemed not to be “fit and proper”. These are critical tools in the dismantling of garrisons. Drafting instructions are now being prepared.

(7) Impeachment provisions

The Bill to make provisions for the impeachment of public officials has been completed and is to be submitted to the Legislation Committee for final review before being brought to Parliament.

(8) Term limits

The Bill to impose term limits for holding the office of Prime Minister is already before the House. Debate commenced last year but was not concluded. The Opposition has stated that it is opposed to the Bill. President Raul Castro recently announced the intention to impose term limits for the President of Cuba and other officials. The Opposition may wish to review its position on the matter when we resume the debate on the Bill during this legislative session.

(9) Regulation of political party financing

Parliament has already given its approval to the recommendations of the Electoral Commission for legislation to be enacted to require the registration of political parties and the regulation of political party financing. The Bill to give effect to these recommendations will shortly be presented to Parliament. We await the recommendations of the Electoral Commission on the equally important aspect of campaign financing

(10) Constitutional amendments to incorporate critical public institutions

Critical public institutions such as the Electoral Commission, Contractor-General, Public Defender, Political Ombudsman and the Local Government Authorities exist in law but are not specifically recognized or protected in the Constitution. We have completed the drafting of a Bill to rectify this and it will shortly be tabled in Parliament.

(11) Appointments to sensitive posts

We are committed to making provisions that would require appointments by government to certain sensitive posts to be subject to scrutiny by Parliament similar, in some respects, to confirmation hearings in the US Congress. This, however, requires agreement on clear guidelines as to how this scrutiny is to be exercised. The outrageous, tribal, abusive behaviour we often practice in this Chamber will discourage many eminently suited persons from offering to serve, especially in non-paid positions, if they run the risk of their names and reputations being tarnished in that crossfire. The concept is a good one for transparency and accountability but unless it is properly structured and managed, it will prove to be disastrously counterproductive. I invite the Opposition to let us have further discussions as to how this should be done.

Constitutional reform

Apart from these measures, there is the long delayed issue of constitutional reform on which substantial agreement was reached from as far back as 1994. In March, we finally approved one significant element when we amended the Constitution to enact the Charter of Fundamental Rights and Freedoms. There are several other elements that require similar action. These include:

- (1) transforming Jamaica from a monarchical to a republican state;

- (2) amending the composition of the Senate to include representatives of civil society;
- (3) limiting the number of persons who can be appointed to ministerial positions;
- (4) removing the provision that allows Commonwealth citizens who are not citizens of Jamaica to sit in Parliament;
- (5) provision to allow ordinary citizens in their own right and in the public interest to challenge executive actions;
- (6) making express provisions for judicial review of the decisions of the DPP;
- (7) determination regarding our final appellate court;
- (8) method of appointment of the Judicial and Police Service Commissions to ensure their impartiality;
- (9) establishment of a Citizens Protection Bureau to be headed by the Public Defender;
- (10) entrenchment in the Constitution of those critical institutions (aforementioned).

The delay in proceeding with these agreed changes has been due to two reasons:

- (a) A number of these changes will require approval by way of a referendum and it was felt that we should await agreement on all the matters that were under consideration before proceeding to a referendum. For example, on the question of the abolition of the monarchy, we did not reach agreement on how the President who would replace the Queen as Head of State was to be chosen. In addition, we have not agreed on what should replace the Privy Council as our final Court of Appeal.
- (b) We have still not decided how the referendum ballot is to be designed i.e., whether issues would be presented to the people as a package to be accepted or rejected or as individual questions or group of questions to be voted on separately.

In the debate on the Charter of Rights, we agreed that a team comprising an equal number of members from each side would have further discussions on the issue of the replacement of the Privy Council. It was required to report by the end of June. I urge the members of the team to pursue those discussions in earnest and with urgency.

For more than 30 years. We have been deliberating on these changes to our Constitution that are designed to affirm the sovereignty of our people, consolidate our independence, strengthen the rights of our citizens and provide constitutional safeguards for good governance. Next year, we will celebrate our 50th year of independence. It would be a misfortune if we were to do so with this important unfinished business still in limbo. We would give added meaning and significance to those celebrations if we were to hold that referendum prior to August next year and have the new constitutional framework as part of that celebration.

I propose, therefore, that the team we have assigned to resolve the issue of our final appellate court also consider the issue of the method of appointment of the Head of State. We had already agreed that this appointment would be by way of a two-thirds majority of both Houses of Parliament. The disagreement arises from our position that it should be a two-thirds majority of each House while the Opposition insists that it should be a two-thirds majority of both Houses voting in joint session. We must be able to find a way to resolve that difference as well as the matter of our final appellate court so that next year we can celebrate more than just 50 years since 1962.

Crime

Another game-changing success factor that has brought new hope to all Jamaicans is the achievements we are making in reducing crime. The number of murders committed over the past 12 months is the lowest since 2003. Crime statistics for this year show a significant reduction in most major crimes:

- Murder 44% reduction
- Shootings 36% reduction
- Break-ins 13% reduction

The number of persons arrested by the Police is up by 50%. Of significance, the number of fatal shootings by the Police is down by 37%.

Crime fighting operations are being driven by better intelligence, better investigations and a reinvigorated determination to put criminals where they belong – behind bars.

I wish, today, to commend Police Commissioner Owen Ellington for the leadership he has displayed, the management that he has brought to the Force, the effective strategies that he is deploying and the way in which he has been able to inspire and mobilize the men and women under his command to rise to this important task.

Two Fridays ago, I had the pleasure of attending the graduation exercise for the most recent batch of police recruits. Of the 209 members, 43 are university graduates, 11 of whom have Masters degrees. All of them enlisted as constables but will have the opportunity for accelerated promotion. We are improving the quality of the Force for better performance and greater effectiveness.

I commend, as well, the new Chief of Defence Staff, Major General Antony Anderson, for his astute leadership and the indispensable support that the JDF is providing in the fight against crime.

Both the JCF and the JDF operate within financial constraints. They need more resource and better equipment but they are doing a mighty job in spite of these constraints and the entire nation owes them a debt of gratitude. On behalf of the people of Jamaica, I commend the men and women of both the Police and Defence Forces who put their lives on the line every day to protect the nation and its citizens.

I pay tribute, as well, to the Minister of National Security and his team for the effective support and policy direction they provide in this fight against crime.

The battle is not over. Even with the 44% reduction in murders, the figure is still too high and we must continue to give the security forces every possible support in their efforts.

Reducing crime is a major priority of the government. First and foremost, people must be made to feel safe and secure as they go about their lawful business and sleep in their beds. In addition, reducing crime is a condition precedent to the growth and development for which we strive. It is a vital part of the environment we must create to encourage investment, job creation and growth.

Much of the crime we are plagued with is driven by organized gangs. Last year, we approved six anti-crime Bills that have contributed to the success that the security forces have been able to achieve. We have now completed the drafting of the Organized Crime Act to enable the security forces to more effectively tackle and dismantle those gangs. It will be brought to Parliament shortly.

Last year, also, we approved and brought into force the regulations for plea bargaining that are helping to secure the imprisonment of violent offenders who might otherwise have escaped conviction. We have also completed the drafting of the DNA Evidence Bill to allow for the use of DNA samples in crime scene investigation and criminal prosecution. This will make a huge difference in securing the conviction of criminal offenders and I urge Parliament to deal with it with dispatch when it arrives.

I thank the members of the public who are demonstrating increased confidence in the Police and are providing valuable information and cooperation in helping us to rid their communities of criminal predators.

NHT

Questions were raised by the Opposition Spokesman on Finance about the figures published in the Public Bodies Estimates of Expenditure as they relate to the performance of the NHT last year. I have had the NHT review the figures and now advise as follows:

	<u>2010/2011 (actual)</u>	<u>2011/2012 (projected)</u>
Housing starts	3,056	5,256
Housing completions	2,239	4,409
Mortgage loans issued	7,071	8,574

The NHT is celebrating its 35th anniversary this year. It continues to be a major success story assisting thousands of families who would never otherwise have been able to own their own home.

It has also been a good corporate citizen contributing significant sums to support communities and national causes such as education, training and sports. Independence Park is, perhaps, its most conspicuous edifice but it has contributed in many another ways.

In commemoration of its 35th anniversary, the Board of the NHT has decided to do something special for the nation and have identified the resources that can be used to do it.

Contributors are entitled to have their contributions refunded after 7 years. Most of them submit their claims and receive their refunds. However, a significant sum remains unclaimed for periods in excess of 10 years and, from experience, is unlikely to be reclaimed.

The NHT proposes to establish a Foundation through which a maximum of 50% of these funds will be channelled to support specific causes that are considered to be in the public interest. Additional funds will accrue to the

Foundation each year as more unclaimed contributions mature beyond 10 years.

Presently, there is a total of \$1.2 billion that has remained unclaimed for more than 10 years. The Foundation will, therefore, have immediately available up to \$600 million.

We have identified 4 target projects for this year:

- (1) Improving the conditions of our golden age homes and infirmaries through physical upgrading and the provision of training for the staff of these institutions, particularly in enabling them to properly care for residents with special needs.
- (2) Similar improvements to be carried out in our children's homes including the provision of equipment, training and support services.
- (3) Improvement to the living quarters provided at police stations for police personnel.
- (4) Special assistance to maximum of \$25 million each year to assist luminaries who have brought us pride in representing Jamaica at the international level but who are faced with challenges in their later years.

Conclusion

I have sought in this presentation to lay out the challenges we face as a nation and the urgency with which we must confront those challenges.

Despite all the difficulties and challenges we face, we are a people capable of great things and it is time to call on that capacity for greatness. But we must be prepared to be game changers. We must move into a game-changing mode.

There is enough that we have seen so far as evidence that the game is, indeed, changing.

And we must not flinch! Ours is not a journey that can be accomplished overnight. Rome was not built in a day and neither can the prosperity we seek for our nation.

Time and again in the past, we got it right, we were headed in the right direction, but we gave up when the going seemed too tough, opting for short-term relief rather than lasting prosperity. Norman Manley was right in his oft-quoted admonition: we are not lacking in ideas; what we lack is a fixity of purpose.

We ourselves may not reap the full bounty of our efforts and sacrifices but for those of us with children and grandchildren our satisfaction lies in knowing that we bequeathed to them a land with a quality of life and a horizon of opportunities that is better than we found it.

May God bless them, especially, and may He bless all the people of Jamaica.

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