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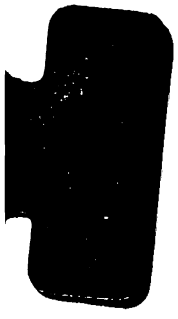

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# The Political Economy of Telecommunications Divestment in Jamaica and Trinidad and Tobago

By

Patricia Kay McCormick

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of Telecommunications

1995

## ABSTRACT

THE POLITICAL ECONOMY OF TELECOMMUNICATIONS DIVESTMENT IN JAMAICA AND TRINIDAD AND TOBAGO

By

Patricia Kay McCormick

This dissertation examines the process and effects of telecommunications divestment as well as regulation of the sector in Jamaica and Trinidad and Tobago. To understand the context of the privatization policy and the factors that may have constrained alternatives, the work analyzes the political and economic environment of each state. It explores the privatization of the state owned telephone companies within the context of economic reform and institutional restructuring. This study also examines the effects of privatization on the performance of the firm, that is, the impact of private foreign investment on efficiency, network investment, and the attainment of development goals. The use and the terms of licenses in the regulatory process are analyzed as are aspects of the shareholding agreements and existing and proposed legislation.

Since the research is interdisciplinary in nature with several interrelated issues being examined, this work employs the comparative case study which draws upon multiple data sources to investigate a specific phenomenon and which is a frequently used policy research method. Jamaica and Trinidad and Tobago were chosen for a comparative study of telecommunications divestment since the two countries possess several similarities. As former British colonies, they inherited similar legal, educational

and political systems. The two states, which may be classified as small, open economies, also both witnessed periods of economic decline after which new governments emerged victorious in national elections and enacted a series of economic reforms.

In both Jamaica and Trinidad and Tobago the predominant factor prompting divestment of the telecommunications sector was the acquisition of foreign exchange to service external debt obligations and build the international net reserves. Cable and Wireless, the firm to whom both countries sold shares, became the corporate beneficiary of internal deficiencies. Although, in the case of Jamaica, it does appear that a private telecommunications monopoly offers more services than a public telecommunications monopoly, this assessment is made on the basis of very limited evidence. Further such auspicious effects in Trinidad and Tobago are less notable. The author recommends that competition in the supply of telecommunications equipment and in the provision of various services be encouraged. Although neither country adequately addressed and enacted effective regulatory mechanisms prior to the divestment of the telecommunications sector, both countries are now in the process of creating or restructuring regulatory institutions separate from the Ministry responsible for public utilities, which will seek to assure that the public's interest in rural and residential service and new services is addressed.

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1995

In loving dedication to my brother,

Michael,

for always being there for me.

## ACKNOWLEDGMENTS

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# INTRODUCTION

Development may be broadly defined as an integrative process unifying political, economic, informational and social factors for the improvement of the society. Fiscal management, human resource management, trade policies, resource allocation, and institutional reorganization are key components of the development process. It is an empowering process in so far as it is an increase in both growth and equity. Development is a quest for a pattern of growth which will serve to alleviate social and human problems and bring about a direct improvement in the condition of the people.[1] To the extent, therefore, that the improvement in the quality of life of the people is the ultimate objective of the development process, the adequate provisioning of utility services or the lack of such services impacts on this objective.

Utility services, that is, electricity, water and sewerage, mass transportation, and telecommunication service, directly affect the quality of life or standard of living in a country in that they are consumed as final services, and, to the extent that they facilitate or are inputs into the production of other final goods and services, boast indirect affects. The telecommunications sector is considered critical in enabling countries to achieve social and economic development goals as well as compete in the international

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[1] United Nations Research Institute for Social Development, The Quest for a Unified Approach to Development (Geneva: UNRISD, 1980), p. 52.

economy, since effective use of electronic communication permits improved coordination in the distribution and production of goods and services. Since markets depend on the timely flow of information, the telecommunications network is arguably the most basic form of infrastructure, with a pervasive effect on the efficiency of an economy.

The telecommunications sector is thus unique when compared to other sectors or firms, for its infrastructure serves as a platform for other industries. The telecommunications infrastructure facilitates forward and backward linkages within the economy. It is considered an essential input, a requisite for most businesses, especially foreign firms considering direct investment in a state. In an effort to modernize the economy, emphasis is often placed on upgrading the telecommunications sector. Privatization of the telecommunications sector may thus be employed to raise capital to acquire new technology and invest in the network, as in Argentina, Venezuela and Mexico. Mexican President Salinas divested the telecommunications sector as he underscored the link between telecommunications and his goal of economic modernization.

Indeed, both case studies and statistical analyses have indicated a strong correlation in telephone penetration and GNP per capita. Indices of the level and quality of the provisioning of utility services could well be classified among the measurable indicators in a quality of life equation. Given the importance and impact of utility services in a developing society, it is, thus, essential to ensure that such services are made universally available at the least possible costs, such that no one is

denied their use on account of financial inability to afford the services. This, together with the fact that utility services, particularly in small economies like those of Jamaica and Trinidad and Tobago, are usually produced by monopolies may justify the need for some form or degree of regulation which attempts to ensure that the services are produced at their least cost and that maximum value or welfare to the society as a whole is achieved.[2]

Many developing countries began nationalizing utility companies, as well as other foreign owned firms, and expanding the role of the state through the creation of state owned enterprises after the second world war. The expansion of the public enterprise sector was encouraged through the early 1970s and supported with loans and credit extended by bilateral and multilateral agencies. Markedly slow economic growth in the early 1980s, however, made it increasingly difficult for governments to service these debts. The fiscal crisis ushered in an era of privatization and other measures of economic reform, as it prompted a reassessment of economic policies and state owned enterprises.

Privatization or divestment, a process that transfers control of assets and operations from the government to the private sector, constitutes an important political aspect of the economic reform programs currently being undertaken in many developing countries. It has become an international trend affecting all spheres of government

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[2] Winston O. Rennie, "The Provisioning of Utility Services and the Quality of Life in Trinidad and Tobago - The Experience Since Independence," in The Independence Experience 1962-1987, ed. Selwyn Ryan (St. Augustine: Institute of Social and Economic Research, University of the West Indies, 1988), p. 400.

activity, including the telecommunications sector. Many developing countries are divesting their state owned and operated telephone companies. Some countries are creating private monopolies in basic service while encouraging competition in new services, such as cellular telephony. This trend of private participation in the telecommunications sector is accelerating rapidly and evaluations of the effects have not kept pace. The stated objectives of privatizing a telecommunications system are usually to encourage efficient operations and management, generate an influx of foreign capital to meet the demands for services and technological improvements, and enhance efficiency in the overall economy.[3] One other objective of privatization, albeit less publicized, is the reduction of external debt.

The reasons prompting divestment depend in large measure on the specific circumstances affecting each country. Korea, for example, embraced privatization as a means to improve efficiency. Such a rationale stems from the property rights school which contends that a change to private ownership will improve the incentives for productive efficiency performance. Management, however, as opposed to ownership, is arguably the key to efficiency, for the Philippine Long Distance Company is illustrative of a private, but grossly inefficient firm. Other countries such as Jamaica and Trinidad and Tobago, as will be demonstrated, undertook privatization measures to alleviate fiscal burdens. The telecommunications sector was chosen for divestment, as opposed to other industries, for it constitutes a valuable asset, thus one which can

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[3] Norman Lerner, "Telecom privatization will aid int'l users," Network World, 7, No. 18, 30 April 1990, p. 38.

readily be divested at a rate which will garner more funds for the state treasury. Although the factors affecting the decision to privatize the telecommunications sector may vary, one aspect of the outcome is virtually universal: the participation of a foreign investor. The divestment of the telecommunications sector thus raises a host of issues which this study seeks to address.

### *Research Questions*

One research question hence pertains to how the political and economic environment of a state affects the decision to divest the telecommunications sector. It is important to understand the context of the decision and the factors that may have constrained policy alternatives. Another question concerns privatization and performance of the firm, that is, the impact of private foreign investment on efficiency, network investment, and the attainment of development goals. This latter concern also has implications for the regulatory arena. The dissertation thus poses the following research questions:

What factors influenced the decision to privatize? How did privatization, as it involved foreign capital, affect the government's ability to direct national development? How was privatization of the telecommunications sector congruous with the general economic reform program? How were the proceeds of the divestiture used?

What were the effects of telecommunications privatization on service quality and regulatory frameworks? Did privatization improve the utility's performance? Does a private telecommunications monopoly offer more services and a higher quality of service than a public telecommunications monopoly because of reduced political interference? Is shareownership indicative of the level of power which an investor can exercise?

How is the sector regulated? What policy alternatives could accomplish the same goals?

The research propositions pertain to two main aspects of the dissertation. The first concerns the political economy of Jamaica and Trinidad and Tobago and the direct bearing it has on the pursuit of a privatization policy. The second proposition relates privatization and performance and has regulatory implications.

***Propositions***

In both Jamaica and Trinidad and Tobago, support for privatization transcended party ideology and party lines because of an ideological shift in the 1980s and the inability to change the policy due to political coalitions of support for the policy.

A private telecommunications monopoly does not offer more services nor a higher quality of service than a public telecommunications monopoly because of the absence of competition.

This latter proposition suggests that competition, that is, a market structure wherein no single firm dominates, compels companies to improve their performance, to increase allocative and productive efficiency in order to garner greater revenue. It contends that an improvement in the economic performance of the public enterprise sector is more likely to result from an increase in market competition than from a change in ownership.[4] This proposition also implies that government regulation is ineffective in requiring the firm to offer new telecommunications services, extend the network to rural and residential areas, and monitor service standards. To address this proposition, statistics, to the extent that they are available, concerning the telephone network before and after privatization will be employed.

Jamaica and Trinidad and Tobago were chosen for a comparative study of telecommunications privatization since the two countries possess several similarities. As former British colonies, they inherited similar legal and educational systems as well as the Westminster system of parliamentary government. The two countries may also both be classified as small, open economies. The two island states are considered small in light of their actual surface areas and populations. Jamaica, though the third largest island in the Caribbean, constitutes but 10,990 square kilometers and a population of 2.5 million while Trinidad and Tobago comprises 5,130 square kilometers and a

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[4] Paul Cook and Colin Kirkpatrick, "Privatisation in Less Developed Countries: An Overview," in Privatisation in Less Developed Countries, eds. Paul Cook and Colin Kirkpatrick (Brighton: Wheatsheaf Books, Ltd., 1988), p. 19.

population of 1.3 million.[5] The vast majority of Jamaica's population is of African descent while that of Trinidad and Tobago is about evenly divided between Africans and East Indians. Despite these demographic differences, the two countries bear many common cultural attributes. The two states also boast a relatively high physical quality of life index, with low infant mortality rates, low illiteracy rates among adults, and life expectancy at birth in the low to mid 70s.

Despite these favorable indicators of each country's well-being, the states have both witnessed periods of economic decline after which new governments emerged victorious in national elections and enacted a series of economic reforms. It is in this context of economic reform and institutional restructuring that this work seeks to explore the privatization of the state owned telephone companies for it is in this respect that the states diverge. Although both countries sold shares in their telephony companies to Cable and Wireless, an international telecommunications service provider based in the United Kingdom, they differ in regard to macroeconomic performance, their relations with external lending agencies, and in their approach to institutional reform. It is thus this blend of similarities and differences which encourages comparison and analysis of the Jamaica and Trinidad and Tobago throughout the dissertation.

The dissertation is comprised of six chapters with the first chapter constituting a literature review of economic reform. This chapter provides an overview of the

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[5] World Bank, World Development Report 1994 Infrastructure for Development (New York: Oxford University Press, 1994), pp. 162 and 163.

policy objectives of the International Monetary Fund's (IMF) stabilization program and the structural adjustment strategy instituted by the World Bank. Specific aspects of these two programs, such as devaluation, tax reform and reduction in subsidies to the public sector, are analyzed in detail. The capability of the state to successfully implement measures of economic reform and the politics of the process of reform are addressed. Broad issues, such as those concerning the levels of external finance and a gradualist approach to reform versus a rapid execution of the measures, are also examined. Institutional reform in the form of divestment and regulation is considered with express detailed reference to the telecommunications sector.

The second chapter examines the application of a similar systems design in the comparative case-oriented research method. It addresses the attributes of a comparative case study. It also notes the documentation sources employed in this study.

The third chapter, in an effort to place the divestiture decision in context, provides background information. It analyzes the socio-economic and political environment of the Caribbean generally and then specifically examines that of Jamaica and Trinidad and Tobago. It reviews the relations of the various political administrations with the IMF and World Bank and bilateral organizations, such as the United States Agency for International Development, and the roles played by these external institutions. The reasons for the divestiture of the telecommunications sector are also explored.

The fourth chapter compares the various processes by which the shares in the state owned telephone companies were sold. It also considers the mergers of the

domestic and the international service providers. It provides a description of the structure and operations of the telecommunications sector and examines the companies in light of their services and performance. Pre- and post-privatization telephony statistics and tables concerning financial data of the firms assist in determining the impact of privatization on performance.

Regulation of the telecommunications sector is the focus of the fifth chapter. It examines legislation which is currently in existence as well as that which has been proposed in the two countries. The use and the terms of licenses in the regulatory process are analyzed as are aspects of the shareholding agreements. Regulation governing the Jamaica Digiport International, which provides international telecommunication service to firms operating in Jamaica's free zones, is addressed. The creation of an independent regulatory agency is also considered. The Office of Utilities Regulation in Jamaica and the Telecommunications Authority in Trinidad and Tobago are discussed as is the restructuring of the Public Utilities Commission in Trinidad and Tobago. The merits of strict rate of return regulation, rate of return benchmark regulation and price caps are also compared.

The final chapter draws some summary conclusions from an evaluation of the political economy of telecommunications divestiture in Jamaica and Trinidad and Tobago.

This work confines itself to an examination of the divestment of the telephony companies in Jamaica and Trinidad and Tobago. The privatization of other sectors in either country is beyond the scope of the present study. Given the relatively short time

frame since the divestitures, the work is limited in its ability to assess the full impact of the private telecommunication monopolies in the two countries, however, it is hoped that some aspects of this comparative study will have implications for other countries. It is the aspiration of this author that this work will contribute to a dialogue among those who participate in the challenge of planning, administering, and assessing telecommunications in developing countries.

# I. ECONOMIC RESTRUCTURING: A REVIEW

## *Introduction*

Since it is within the context of economic reform and institutional restructuring that this work seeks to explore the privatization of the state owned telephone companies in Jamaica and Trinidad and Tobago, it is, thus, incumbent upon the author to examine the literature concerning economic restructuring. The literature review is designed to provide an appreciation of various reform efforts, including divestment. Specifically addressed are the stabilization policies of the International Monetary Fund (IMF) and structural adjustment programs of the World Bank. The role of these multilateral institutions as well as a state's internal party politics and the timing of national elections are analyzed so as to better understand the specific policies undertaken by the governments of Jamaica and Trinidad and Tobago.

## *The 1980s - Global Economic Decline and Creditor Response*

When global economic growth slowed markedly in the early 1980s, many governments found it increasingly difficult to meet their external debt servicing requirements. For many countries, the debt became the predominant policy issue of the decade, with attempts to meet repayment conditions effectively constraining policy

options.[6] The postulate that developing countries would come to finance an increasing proportion of investment from domestic savings has generally not been realized. Poor export performance coupled with the failure of economic diversification and the development of new foreign exchange earners has resulted in a continued dependence on weak traditional sectors, and, thus, foreign savings. In the absence of commodity agreements that would assist in stabilizing prices, the significant drop in commodity prices in the 1980s further served to augment the deterioration of the terms of trade and thus the balance of payments position of many developing countries which are dependent on a few primary exports.[7]

The fiscal crisis provoked a reevaluation of governments' economic policies and also altered patterns of investment and multilateral lending. The coalition of major creditor governments, the World Bank, the IMF, and the commercial banks assumed a pivotal role in the design of economic reform programs. Multilateral financial institutions tend to focus on the internal or domestic elements affecting an economy. The contributions of internal and external factors to the slow growth, if not contraction, of developing economies, is, however, in dispute. Looney suggests that it is not always possible to identify with any precision the relative importance or weight of external and internal factors, and, further, that such categorizations may be of limited value given

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[6] Trevor Harker, "A Brief Overview of Economic Performance in the Eighties," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 20.

[7] Ramesh Ramsaran, The Challenge of Structural Adjustment in the Commonwealth Caribbean (New York: Praeger Publishers, 1992), p. 4.

that close interrelationships often exist among different factors, such as deterioration in terms of trade, interest rates in international credit markets, and economic activity in industrialized states.[8]

The causes of balance of payments disequilibria in developing countries are, however, often identified as internal and include an overvalued exchange rate and price distortions which inhibit exports and encourage imports, and large public sector deficits financed by credit creation.[9] In response to these problems, the programs of the external agencies have adopted the dominant orthodox view of development, stressing export-led growth with internal price liberalization and reduced direct government intervention in the economy, a minimalist state, with the major instrument of reform being the market.[10] To stimulate growth on a sustainable basis, developing countries, in the view of both multilateral and bilateral agencies, need to employ not only improved macroeconomic management and price reforms, but to restructure public investment and state owned enterprises.[11]

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[8] Robert E. Looney, The Jamaican Economy in the 1980s: Economic Decline and Structural Adjustment (Boulder, CO: Westview Press, 1987), pp. 17 and 49.

[9] Richard L. Bernal, "Theoretical Critique of IMF Stabilization Programmes in Developing Countries," presented at the First Meeting of the Working Group on Debt and Structural Adjustment of the Association of Caribbean Economists, Barbados, 24-25 October 1987, pp. 8-9.

[10] Thomas M. Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Fragile Coalitions: The Politics of Economic Adjustment, ed. Joan M. Nelson (Washington, D.C.: Overseas Development Council, 1989), p. 115.

[11] Joan M. Nelson, "The Politics of Long-Haul Economic Reform," in Fragile Coalitions: The Politics of Economic Adjustment, ed. Joan M. Nelson (Washington, D.C.: Overseas Development Council, 1989), p. 5.

The World Bank introduced Structural Adjustment Loans (SALs) in 1980, later supplemented by Sector Adjustment Loans (SECALs), thus, shifting a portion of its traditional project lending into loans conditioned on policy and institutional reform. The very term 'conditionality' refers to the economic policy changes that external agencies require of national governments in the process of adjustment.[12] The conditionality of IMF agreements which enable countries to borrow Special Drawing Rights (SDR)[13] was further broadened in arrangements under the Extended Fund Facility (EFF) and the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF). The latter two programs were added in the second half of the 1980s.

As Nelson notes, the 1980s witnessed unprecedented external intervention in the internal economic policies of an unparalleled number of countries in terms of the measures addressed and conditionalities ascribed.[14] This is perhaps due, in part, to the contraction of other channels of finance, including the fact that foreign investment is increasingly taking place between industrialized countries, which has effectively made multilateral financial institutions the primary source of balance of payments assistance. In addition, commercial banks and bilateral agencies tend to require the IMF imprimatur or seal of approval before engaging in negotiations with debtor countries for

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[12] Miles Kahler, "International Financial Institutions and the Politics of Adjustment," in Fragile Coalitions: The Politics of Economic Adjustment, ed. Joan M. Nelson (Washington, D.C.: Overseas Development Council, 1989), p. 139.

[13] Special Drawing Rights are an artificial unit of account used by the IMF which are based on five currencies.

[14] Nelson, "The Politics of Long-Haul Economic Reform," p. 18.

rescheduling. Also, since multilateral agencies refuse to reschedule their loans, a country is compelled to borrow more in order to maintain positive net inflows and is therefore exposed to extended and enlarged conditionality.[15]

The question can then be raised whether a country which is unable to meet its debt servicing requirements and becomes subject to wide ranging conditionalities can said to be truly in control of its resources.[16] It is too often the matter of finance that forces countries into externally designed adjustment programs, and not necessarily conviction of the inherent worth of such programs.[17] Developing countries have, in fact, no real economic alternatives or at least no better alternatives to those of the multilateral financial institutions.

## Policies of Multilateral Agencies: An Overview

### *The IMF*

In general, the IMF focuses primarily on the macroeconomic framework and on means to eliminate financial imbalances. The control of domestic demand is a chief

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[15] Norman Girvan, "The Debt Problem of the Caribbean and Central America: An Overview," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 106.

[16] Owen Jefferson, "A Note on The External Debt of the English-Speaking Caribbean," in Development in Suspense, eds. George Beckford and Norman Girvan (Kingston: Friedrich Ebert Stiftung, 1989), p. 55.

[17] Ramsaran, p. x.

intent of its programs. Domestic demand management policies include control of central bank credit to the government and commercial bank credit, increases in indirect taxes, and control of the government deficit.[18] Financial debt policies, especially those relating to the public or public guaranteed debt, is a principal concern of the IMF, and agreements with the IMF often require countries to improve their public sector savings performance.[19] The restoration of payments equilibrium, some critically cite, as the IMF's principal objective, though its Articles stipulate that the maintenance of high levels of employment, income and economic development are its primary objectives.[20] Exchange and trade policies are also major concerns of the IMF as it attempts to facilitate the expansion and balanced growth of international trade.

The IMF guides countries in the achievement of these objectives through implementation of the measures within the framework of periodic reviews, commonly referred to as "IMF tests," which serve as preconditions for the continuation of funding.[21] It was actually in an effort to meet the criteria stipulated in these "tests" that the Jamaican government sold a large portion of its shares in the telephone

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[18] Michael Howard, Public Finance in Small Open Economies The Caribbean Experience (Westport, CT: Praeger Publishers, 1992), p. 72.

[19] Ramsaran, pp. 47 and 83.

[20] Tony Killick, Graham Bird, Jennifer Sharpley, and Mary Sutton, "The IMF: Case for a Change in Emphasis," in Adjustment Crisis in the Third World, eds. Richard E. Feinberg and Valeriana Kallab (Washington, D.C.: Overseas Development Council, 1984), p. 61.

[21] Sam Tyson, "Recent Developments in Structural Adjustment with Special Emphasis on Compensatory Policies: The Case of Jamaica," presented at the Caribbean Roundtable on Structural Adjustment and Employment Issues, Port of Spain, Trinidad, 13-15 May 1991, p. 3.

company, for failure to meet the set targets may result in the repeal of the agreement or in the application of even more stringent measures. Critics contend that national authorities expend too much effort in monitoring movements in critical economic variables and supplying data to the IMF and the World Bank, which also disburses structural adjustment and sectoral adjustment loans in tranches that are subject to meeting specified performance criteria. Critics assail that the degree of improvement in social conditions, the fundamental objective of development, should be the basis of measuring success, and not the movement of an economic variable to some predetermined level. The IMF programs are charged with being anti-developmental, as they focus on the balance of payments and fail to address structural problems in the economy.[22] While some critics contend that the reform measures of the multilateral lending agencies are too harsh, inflicting high social costs and economic casualties, others counter that IMF and World Bank support for a country's economic program boosts confidence in the country's economy, enhancing public and private capital flows.[23]

Traditionally, the majority of the IMF's lending was conducted under stand-by agreements, which are associated with stabilization programs directed to short-term balance of payments problems. Stand-by agreements generally lasted one or two years, though the introduction of the EFF in the mid-1970s allowed adjustments to be made over a two to three year period. The IMF, however, frequently made back-to-back

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[22] Howard, p. 73.

[23] Kahler, p. 145.

stand-by agreements in the 1980s, which in effect created semi-permanent arrangements out of programs initially designed as short-term.[24] By the latter 1980s, as external lending agencies came to appreciate the depth of the economic ills afflicting developing countries and to understand that economic reform in a climate of negative resources from commercial banks would be a prolonged process, the time frame for reform efforts was recast in longer terms. This is evident in the additions of the SAF and ESAF, which also attest to the changing role of the Fund which is increasingly concerned with growth policies.

The SAF and ESAF are designed to provide concessional resources to low income countries facing protracted balance of payments problems in an effort to improve their balance of payments situation and foster growth over the medium term. The broad objectives of the two facilities are the restoration and maintenance of payments viability and the structural alteration of economic activity to achieve high sustainable rates of economic growth. Though disbursements under the SAF are made annually, whereas semiannual disbursements are made under the ESAF, the interest rate of 0.5 percent per annum and the maturity associated with the loans, that is, they are repayable over five and a half to ten years, are the same for both facilities.[25] The aim of these concessional resources is to financially assist the pursuit of longer-term reforms and adjustment programs that countries undertake.

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[24] Nelson, "The Politics of Long-Haul Economic Reform," p. 18.

[25] Joslin Landell-Mills, Helping the Poor: The IMF's New Facilities for Structural Adjustment (Washington, D.C.: International Monetary Fund, 1989), pp. 1-4.

***The World Bank***

The World Bank, which has customarily focused on longer-term issues, analyzing sector policies and public investment programs in an effort to increase economic efficiency at the microeconomic and macroeconomic levels, has made lending for structural adjustment an increasingly important part of its activities. World Bank structural adjustment programs are implemented over a longer period of time than IMF stabilization measures. Adjustment programs are generally designed for a three to five year time frame, often in the context of longer range views.[26] Structural adjustment programs also aspire to fulfill a wider range of objectives than IMF stabilization policies. Structural adjustment lending does not seek to simply alleviate temporary financial or foreign exchange constraints, rather it aims at strengthening an economy such that it grows more resilient and capable of handling negative external changes. Structural adjustment programs are multiple objective operations. The resumption of growth with economic stability and a flexible and adequate response to external shocks, including a decreased vulnerability to changes in the international market, have, however, proven formidable goals to achieve.

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[26] Joan M. Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," in Economic Crisis and Policy Choice, ed. Joan M. Nelson (Princeton: Princeton University Press, 1990), p. 4.

***Multilateral Cooperation and Cross-conditionality***

To ensure that the analysis and policy recommendations underlying the lending programs of the World Bank and the IMF are consistent, the Bretton Woods institutions, which have historically operated largely independently of each other, have witnessed increasing cooperation in recent years. Policy framework papers are evidence of this collaboration.

Policy framework papers seek to ensure that the policy reforms being undertaken by various countries are properly and realistically targeted with regard to growth objectives and balance of payments viability, and are mutually reinforcing and financially supported by appropriate amounts and forms of external financing.[27] Policy framework papers, which establish a country's macroeconomic and structural policy objectives for a three year period, are prepared by the national authorities in conjunction with the staff of the World Bank and the IMF. The papers are updated at the outset of each program year and are reviewed by the executive boards of both the World Bank and the Fund before disbursements are made.[28]

Arguably, in addition to joint annual meetings, greater coordination of IMF and World Bank activities may lead to a more effective use of resources. Ellis, in fact, contends that maintaining the World Bank and the Fund as two separate institutions is an unnecessary duplication of resources, and, thus, recommends a merger of the

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[27] Ramsaran, p. 161.

[28] Landell-Mills, p. 4.

institutions.[29] Greater cooperation between the institutions does, however, raise issues concerning cross-conditionality. Cross-conditionality describes a situation in which a country is compelled to accept the conditions of one institution in order to qualify for assistance from the other. Cross-conditionality, thereby, enables the multilateral lending agencies to exercise greater control over a country's domestic economic management.[30] The World Bank does not generally consider an adjustment operation until an IMF Stand-by agreement is in place or until the IMF endorses the program.[31] The World Bank's program is thus conditional on the IMF's and cross-conditionality is established, as are assorted time frames for programs.

It is difficult to separate medium-term measures from longer-term policies or what are also referred to as structural transformation objectives. Structural adjustment lending has generally been aimed at encouraging medium term reforms, whereas long term goals include economic diversification, employment creation, and reduced external financial dependence. Stabilization efforts, however, continue to constitute a shorter term focus.

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[29] Clarence Ellis, "The Role of the International Financial Institutions in Structural Adjustment" (n.p.: n.p., 1992), p. 11.

[30] Ramsaran, p. 161.

[31] Ellis, p. 13.

## Stabilization

Stabilizing the economy and reestablishing a sustainable external position is often an initial policy area which developing countries confronting foreign exchange problems attempt to address. Economic stabilization pertains to measures aimed at correcting unsustainable balance of payments deficits, reducing the rate of inflation, achieving a realistic exchange rate, and restoring and promoting external trade flows. Budgetary discipline is a central component in virtually every stabilization program. Ideally, stabilization is concerned with how to achieve price stability and balance of payments equilibrium with maximum benefit for long term growth and minimum sacrifice of short term growth.[32] Stabilization programs, however, need to consider not only growth effects but also effects on income distribution and the occurrence of absolute poverty.[33]

Stabilization measures frequently involve exchange rate reform and alterations in practices regarding import protection and export incentives.[34] Liberalization of foreign exchange and import controls is often a component of stabilization as is deregulation, which may include removal of price controls, abolition of subsidies, and,

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[32] William R. Cline and Sidney Weintraub, eds., Economic Stabilization in Developing Countries (Washington, D.C.: The Brookings Institution, 1981), pp. 1 and 10.

[33] Cline and Weintraub, p. 7.

[34] Cline and Weintraub, p. 1.

in some instances, privatization.[35] Most instruments of short-run stabilization programs impact both aggregate demand and supply patterns.[36] These policy measures may include fiscal austerity, credit ceilings, interest rate adjustments, tax structure reform, adjustment of tariffs, wage restraint policies, reduction in the public sector/GDP ratio, and devaluation.

***Devaluation***

Currency devaluation is designed to discourage imports and make exports more competitive in the international market, thereby, favorably impacting the balance of trade. It is intended that lower export prices persuade foreign buyers to shift from other countries' exports to the devaluing country's, while local residents also engage in expenditure switching by purchasing locally produced goods instead of more expensive imports and consuming less. It is thought that, due to the higher costs of imports, resources would be reallocated into export production and import substitution, thus saving foreign exchange. Such an objective of a devaluation may, however, be offset if the devaluing country is significantly dependent on imports of raw materials and other essential products, that is, there exists an inelastic demand for imports, as in Jamaica. Higher import costs would then have a direct tangible impact on popular

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[35] Howard, p. 72.

[36] Stanley Please, "The World Bank: Lending for Structural Adjustment," in Adjustment Crisis in the Third World, eds. Richard E. Feinberg and Valeriana Kallab (Washington, D.C.: Overseas Development Council, 1984), p. 84.

living standards and be reflected in the cost of production, which could, in turn, deter investment. One could, alternately argue, in disregard for the poor or the lower classes, that devaluation would increase inflows of foreign investment which would be attracted by reduced real wage levels.[37]

Devaluation has sometimes resulted in countries having to export an increased quantity of goods and services in order to maintain a given level of foreign exchange earnings.[38] If a loan is secured in a currency other than the U.S. dollar, such as the Japanese yen, and the U.S. dollar depreciates relative to other hard currencies, then the borrowing country, as in the case of Trinidad and Tobago which earns nearly all of its foreign exchange in U.S. dollars, needs to export more in order to finance non-U.S. dollar loans. In several instances devaluation has also increased the external debt servicing burden which can increase government expenditure and aggravate the budget deficit. Although decreasing flows of external or foreign savings has compelled governments to increase domestic investment resources, devaluations can be highly inflationary, as in Guyana and Jamaica. In these economies where both production and consumption have a relatively high import content, exchange rate policies are often at variance with the objective of encouraging savings. Inflation lowers the standard of living of those on fixed incomes, particularly the poor, thus, increasing a country's social debt, that is, the amount of resources required to overcome poverty and achieve

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[37] Bernal, p. 11.

[38] Ramsaran, p. 74.

a socially acceptable degree of distributive equity.[39] One way of offsetting the adverse impact of inflation is to impose price controls and provide subsidies on basic foods and other essentials, a set of social impact amelioration policies, if you will, but this is often at odds with other objectives of an IMF stabilization program.[40] Reconciling growth policies with redistributive policies challenges external agencies and national governments alike.

Devaluation, in generating inflation rather than correcting the external accounts, may also erode confidence in the national currency and thereby provoke a parallel or unofficial exchange rate and generate capital flight, as has occurred in Jamaica.[41] Although liberalization of foreign exchange markets to establish a unified market determined exchange rate and removal of exchange controls aim at discouraging capital flight and increasing investor confidence, such mechanisms do not always succeed.[42] Capital flight, be it in anticipation of a devaluation or due to a program of austerity in conjunction with devaluation, may create more damage than a reform program can

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[39] Michael Witter and Patricia Anderson, "The Distribution of the Social Cost of Jamaica's Structural Adjustment 1977-1989," prepared for the Research Project on "The Impact of Structural Adjustment on the Social Debt in Jamaica," sponsored by the International Labour Organization and the Planning Institute of Jamaica (Mona: University of the West Indies, 1991), p. 1.

[40] Bernal, p. 13.

[41] Ramsaran, p. 17.

[42] Janine Iqbal, "Adjustment Policies in Practice: Case Study of Jamaica 1977-91," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 48.

rectify.[43] Arguably, an overvalued exchange rate may also induce capital flight and speculation.[44] Inability to control capital flight has, regardless of its origin, generally led to increased dependence on foreign savings.[45] Public sector deficits can not be readily financed from domestic sources in a climate of international capital mobility.[46]

***Interest Rates***

International capital mobility, which translates into capital flight, leads to a sharp rise in domestic interest rates which could adversely affect investment.[47] Higher interest rates increase the cost of investment, and, thereby, penalize inefficient firms.[48] High domestic interest rates coupled with high external interest rates, which increase the transfer of income overseas while lowering national income, thereby, promoting

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[43] John Waterbury, "The Political Management of Economic Adjustment and Reform," in Fragile Coalitions: The Politics of Economic Adjustment, ed. Joan M. Nelson (Washington, D.C.: Overseas Development Council, 1989), p. 48.

[44] Bernal, p. 10.

[45] Ramsaran, p. 154.

[46] Stephen A. Quick, "The International Economy and the Caribbean: The 1990's and Beyond," presented at the World Peace Foundation Conference, Kingston, Jamaica, 10-12 January 1991, p. 4.

[47] Quick, p. 3.

[48] Dennis Pantin, Into the Valley of Debt (Trinidad and Tobago: Gloria V. Ferguson Ltd., 1989), p. 13.

perverse income transfers, may have unpropitious consequences.[49] Though higher domestic interest rates are assumed to be an important factor in encouraging savings, herein lies a contradiction, for higher lending rates, which, as noted, may discourage investment, tend to accompany higher deposit rates.[50]

***Tax Reform***

In an attempt to promote savings and investment, recent fiscal reforms in many developing countries have included attempts to simplify and alter the tax structure. Tax reforms have been recommended to make the system more responsive to revenue needs and to acquire greater compliance with the system. Many countries, including Jamaica and Trinidad and Tobago, have increasingly employed taxes on consumption expenditure or value-added taxes, despite the regressive nature of indirect taxes, as opposed to raising income taxes. Trinidad and Tobago consolidated and reduced personal and corporate income tax levels while instituting a value-added tax (VAT) of 15 percent. Internationally mobile corporations, which seek tax regimes that are attractive at both the corporate and individual income tax level, have also contributed

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[49] Albert Fishlow, "The Debt Crisis: Round Two Ahead?" in Adjustment Crisis in the Third World, eds. Richard E. Feinberg and Valeriana Kallab (Washington, D.C.: Overseas Development Council, 1984), p. 45.

[50] Ramsaran, pp. 16 and 12.

to the falling rates of corporate and income taxes.[51] A lower corporate tax constitutes a direct incentive to the foreign private sector.[52]

***Public Sector Wages and Salaries***

Tax reform, like other efforts to reduce the fiscal deficit, such as cuts in public sector wages and salaries, are part of the politically sensitive reform process undertaken in many countries. The government is a major employer in many developing economies as the public sector has been used to relieve the unemployment situation. Public sector wages and salaries thus account for a high proportion of the recurrent expenditures of many governments, and, as such, are earmarked for reduction. In an effort to lessen the amount paid in wages and salaries to public sector employees, a government may freeze or reduce emoluments and/or the number of employees.

It is a general fact that the public service is overstaffed, and the telecommunications sector is no exception. In developing countries, PTTs typically have 50 to 100 employees for every 1,000 telephone lines as compared with 0.2 employees or fewer for 1,000 lines among telephone companies in the U.S., Europe, or Japan.[53] A lack of efficiency often accompanies such bloated workforces, thus a staff

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[51] Quick, p. 4.

[52] Pantin, p. 13.

[53] William W. Ambrose, Paul R. Hennemeyer, and Jean-Paul Chapon, Privatizing Telecommunications Systems Business Opportunities in Developing Countries (Washington, D.C.: The World Bank and International Finance Corporation, 1990), p. 13.

reduction is not likely to affect the level or quality of service. In cutting the number of employees, however, the government may make worse an already serious situation of high unemployment, for the private sector is unlikely to be able to absorb the numbers of newly unemployed. Such circumstances can lead to social unrest and thus potential political instability. A high level of unemployment also tends to spur emigration which can compound the economic decline.[54] To thus curb staff reductions, governments may seek to rationalize the state sector by reorganizing personnel and restructuring incentives for public sector managers to encourage new behaviors and provide for management autonomy, and thereby, achieve a more effective and efficient use of human resources. The privatization of firms may facilitate these behavioral changes, but does not generally affect staff size. Retrenchment of staff is avoided to make the privatization process more politically palatable to workers and trade unions, for governments must often contend with strong opposition from labor to privatization.

***Rationalizing Reform***

Governments encounter difficulties in the rationalization not only of the state sector, but of the economic reform process generally as the transition from stabilization to adjustment is often indistinct. While some governments envision a two-stage process of stabilization followed by adjustment, others do not separate the processes and nor can

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[54] Ramsaran, pp. 33 and 88.

they be neatly divorced by ex post analysis as many of the measures are intertwined.[55] Critics argue that while stabilization is a critical component of adjustment, fiscal stringency and balance of payments and debt constraints compromise essential longer-term investment.[56]

Conflicts between stabilization and longer run adjustment may account, in part, for the tenacious struggles which are waged within governments and between national authorities and various special interest groups over issues of reform. As fiscal pressures have persisted into the 1990s, most developing countries have had to simultaneously pursue stabilization and adjustment programs, a formidable agenda for any country. The question is not adjustment versus no adjustment, but, rather, the suitability of the measures in regard to their efficacy and their social and economic impacts.[57] Nelson contends that the most caustic debates on structural change focus on the pace and sequencing of measures to liberalize trade; the appropriate roles of the state and the market, as well as their respective limits, in promoting growth and other objectives of development; and the allocation of short-term and long-term transitional costs. Adjustment is, thus, technically complex and controversial, while simultaneously posing tremendous ideological and political conflicts.[58]

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[55] Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," pp. 14 and 15.

[56] Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," p. 12.

[57] Ramsaran, p. x.

[58] Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," p. 4.

In regard to the telecommunications sector, for example, some factions may oppose privatization as a means to reform the sector on the grounds that it would breach national security interests. Other opponents may gain public support by drawing an analogy between selling the valuable assets of the telecommunications sector to that of selling the "crown jewels". Opponents may also argue that privatization is an unnecessary and insufficient condition for reform of the sector, that replacing a public monopoly with a private monopoly is not making essential structural changes and market alterations which would improve the firm's performance. Coalitions of support for telecommunications privatization may justify their position by linking the development of the infrastructure with that of the entire economy. Since government budgetary problems and scarce financial resources limit investment in the system, advocates may argue that privatization is the best means to upgrade the network and thereby ensure public telecommunications service. Arguments may also ensue as to the process of privatization. Whether or not to include public share offerings and employee share schemes as part of the process and what percentage, if any, of the firm's shares the government should retain are areas ripe for debate. Competition in service offerings and reform of the regulation of the sector, ie. should the government retain regulatory control or should an independent authority oversee the implementation of regulation, are also areas open to ideological and political dispute. Structurally adjusting the telecommunications sector is thus a complex and controversial process.

## Structural Adjustment

World Bank structural adjustment programs are, as noted, multiple objective operations which may make some objectives complementary and others contradictory.[59] While policy design in regard to multiple objectives is not a simple task, sectoral and sub-sectoral concerns of the structural adjustment process include, among others, market development and organization; the roles of the public and private sectors in economic endeavors; the taxation structure; and industrial policy, including tariffs and import licensing systems, which governs industry's ability to operate and expand.[60] Adjustment programs not only seek to alleviate balance of payment problems, but create a situation of sustainable management of the budget deficit. The premise of sound public finance suggests that current revenues finance current expenditures and that borrowing not be treated as a permanent solution.[61] The problem is that in many countries debt-servicing simply facilitates access to new loans which are used to service old loans, thus, the tendency for persistently high levels of debt.[62]

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[59] Looney, p. 217.

[60] Please, p. 84.

[61] Anders Danielson, The Political Economy of Development Finance Public Sector Expansion and Economic Development in Jamaica (Boulder: Westview Press, 1993), p. 15.

[62] Ramsaran, p. 4.

In attempting to reduce the trade deficit, adjustment programs seek increased investment in the development of exports and enhanced efficiency and competitiveness in the productive sectors. Reduced protectionism and trade liberalization which compel domestic suppliers to compete with imported products endeavor at generating this efficiency. Aims of the SAL programs also include revision of the banking sector; reductions in the role of the state; institutional and public sector reforms, which may entail divestment; and price reforms which include curtailed subsidies for state owned enterprises. Adjustment is, as Kahler writes, an orthodox paradox, for governments are now to adopt policies that may be economically rational, but are certainly politically irrational as the state is to dismantle its own power.[63]

***Reduced Subsidies***

In regard to the public sector, it has grown increasingly difficult for governments to justify the consequential proportion of transfers expenditure for which state enterprises account. Transfers to public utilities and other state enterprises have, thus, been reduced and such enterprises are being increasingly urged to narrow the breach between revenues and expenditures.[64] This was the case in regard to the public utilities in Trinidad and Tobago in the early 1980s. Although public utilities have generally been allowed to seek rate increases to assist in offsetting their operating

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[63] Kahler, p. 47.

[64] Ramsaran, p. 7.

deficits, a leaner public sector is argued to be necessary to stimulate the growth of an efficient market mechanism.[65]

While this is a critical aspect of the changing role of the state in the 1990s, the removal of subsidies, as with public wage reduction tactics, may prove a costly expenditure of political capital, for subsidies have, at times, been employed to assist enterprises through a transitional period or, as in Trinidad and Tobago, to facilitate the productive potential of disadvantaged segments of the population.[66] Reduced subsidies for publicly distributed goods, such as gasoline and other petroleum products, and cutbacks in other social expenditures may also cause an already precarious social situation to retrogress and lead to popular opposition to the policies of economic reform. Such opposition may lead to mounting support for populist electoral candidates, a phenomenon Nelson terms 'adjustment fatigue.'[67]

***Politics of Adjustment and State Capabilities***

While stabilization instruments are largely within the domain of central economic authorities, structural adjustment measures often require legislative approval, in which case the protraction of the process creates an opportunity for the formation of

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[65] Howard, p. 8.

[66] Ramsaran, p. 60.

[67] Nelson, "The Politics of Long-Haul Economic Reform," p. 5.

coalitions to oppose the reforms.[68] Coalition management, suggests Waterbury, is central to effective economic adjustment as is gaining the cooperation of public sector managers.[69] Some firms, for example, may contest economic liberalization measures for they may be unable to compete in an arena of import liberalization. Since the process of reform is politically contentious, governments must construct adjustment strategies that are politically sustainable, by, perhaps, as Nelson suggests, instituting measures of benefit to the lower and middle classes of urban areas which have largely shouldered the burden of austerity.[70] The benefits of adjustment have dawdled behind the immediate costs, particularly in the context of such austerity measures as freezing wages and slashing budgets, thus, presenting a political problem which the state needs to resolve.

While state capabilities vary, they each need bureaucratic and technocratic abilities to simultaneously mediate at both the international and domestic levels. State authorities need to negotiate with the international financial institutions for policy flexibility and financial support so as to not undermine confidence in their governments and their economic policies, and at the domestic level they need to buffer the negative socio-political affects of employing reform policies.[71] Feinberg contends that adroit government tactics, including candid explanations of the situation and persuasion, can

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[68] Nelson, "The Politics of Long-Haul Economic Reform," p. 9.

[69] Waterbury, p. 44.

[70] Nelson, "The Politics of Long-Haul Economic Reform," p. 17.

[71] Callaghy, p. 121.

extend public tolerance of economic reform efforts.[72] The success of adjustment programs is not merely a matter of political will. The likelihood of adherence to conditionalities could, arguably, be greater in the context of mutually designed programs. Governments, however, could then no longer cite external agencies as the source of economic difficulties associated with extreme fiscal disequilibrium. National authorities would be forced to assume more responsibility for their own policies and actions.

Kahler suggests that the multilateral lending agencies be engaged in an ongoing dialogue with national authorities, and in this way increase the likelihood of adjustment program implementation and alleviate the need for crisis lending. In a process of continuous policy discussion, negotiations regarding a specific program would then constitute but one aspect.[73] This dialogue process, undertaken, perhaps, in conjunction with joint studies, would aim to deepen external agencies' understanding of a country's particular constraints, and, thus, enable them to formulate more appropriate policies. However, since one can safely assume that national economists are more knowledgeable in regard to domestic matters than external agencies, discussions may shift to a narrow focus on, say, foreign exchange matters, and, thereby, defeat the objectives of the

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[72] Richard E. Feinberg, "Overview: The Adjustment Imperative and U.S. Policy," in Adjustment Crisis in the Third World, eds. Richard E. Feinberg and Valeriana Kallab (Washington, D.C.: Overseas Development Council, 1984), p. 23.

[73] Kahler, pp. 150 and 153.

dialogue process and leave relatively unaltered the political dynamics of conditionality.[74]

In an effort to enhance the credibility and actual viability of the adjustment process, Nelson recommends that conditionality and associated financial support and debt reduction correspond to state capabilities. She suggests the adoption of a two-tiered conditionality program. Governments with limited capacity and commitment would be required to meet a narrow but more realistic set of conditions, while more capable governments already strongly committed to reform would be subjected to greater demands since actual compliance increases with commitment.[75] A short list of important policy changes or streamlined conditionality is of value, Kahler argues, since the state may boast few allies of its reform effort and it may possess limited monitoring capabilities to oversee multiple and varied reforms.[76]

***Levels of External Finance***

While the need for external finance may deter governments from abandoning programs of policy conditionality, levels of external finance represent an area of controversy in the adjustment process. One argument contends that high levels of external finance allow governments to evade necessary policy changes since it alleviates

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[74] Feinberg, p. 16.

[75] Nelson, "The Politics of Long-Haul Economic Reform," pp. 19 and 21.

[76] Kahler, p. 153.

the balance of payments pressures, in essence, constituting a deviation effect.[77] This would appear to be the case in regard to the first two years of the Seaga administration in Jamaica in the early 1980s. Another view suggests a reinforcement effect, that is, high levels of external finance increase the likelihood of program success by enabling economic growth and economic compensation for those disadvantaged by the adjustment process which both culminate in domestic confidence and political support.[78]

Despite the opposing tenets of the two views, both agree that generous levels of financial support can not alone engender adjustment. Others, however, do contend that no alternative to austerity exists in the absence of enlarged, near-permanent international flows of concessional finance.[79] As an alternative to an absolute level of financing, creditors could customize funding, that is, alter levels of funding in accord to adjustment effort.[80] Variable funding levels could, however, pose adverse consequences in intensifying a government's strategic behavior in attempting to acquire funds.

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[77] Kahler, p. 155.

[78] Kahler, p. 155.

[79] Killick et al., p. 67.

[80] Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," p. 29.

***Gradualist Approach vs. Shock Treatment***

Liberal levels of external financing accompanied by increased availability of such financing tend to be required of a gradualist approach to economic reform.[81] While a shock treatment approach imposes immediate short term costs, which a gradual strategy can reduce, the odds do not necessarily favor gradualism. The risk of waging on the success of gradualism is the indeterminate duration of a government.[82] A new regime, be it elected or not, may well alter policies and the pacing of their implementation. Political change and instability may, thus, threaten measures incorporated over a longer time frame.[83] Arguably, however, gradualism, by phasing in aspects of the adjustment program, permits greater coalition management, for the government can better negotiate separately with each group as they become affected by the reform measures.

Advocates of gradualism contend that shock treatment is the most politically perilous approach to reform since they associate political risks with immediate cuts in employment and consumption. Quick acting measures which invariably equate with cuts in demand, as opposed to measures aimed at stimulating supply, entail heavy social costs.[84] Shock treatment proponents counter that public tolerance for austerity is brief

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[81] Cline and Weintraub, p. 35.

[82] Cline and Weintraub, pp. 11 and 35.

[83] Feinberg, p. 16.

[84] Killick et al., pp. 59-60.

as is the ability of politicians to withstand adversaries of reform. If the economy can respond quickly to violent economic changes, that is to say it is economically viable, then it is probably politically sustainable as well.[85] This, however, is unlikely to be the case with unduly weak economies and/or governments. It is necessary then that the composition and execution of programs be sensitive to the political dynamics of each country and the political sustainability of an administration.

***Internal Political Pressures***

Internal patron-client political relationships incapacitate many governments from employing adjustment measures which move to an increased reliance on market mechanisms for reduced direct controls emasculate their ability to build and maintain political support. That is, if allegiance is generated with the facility to direct contracts, licenses, jobs, goods, etc., to political supporters, then a shift to price mechanisms, which do not discriminate between ally and opposition, becomes tantamount to political suicide.[86] It is another example of Kahler's orthodox paradox, but, perhaps more importantly, is indicative of the importance of the timing of reforms.

Internal political pressure, including the danger that income disparities will widen as a consequence of adjustment, thus corroding social cohesiveness and public

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[85] Joan M. Nelson, "The Politics of Stabilization," in Adjustment Crisis in the Third World, eds. Richard E. Feinberg and Valeriana Kallab (Washington, D.C.: Overseas Development Council, 1984), pp. 108-109.

[86] Nelson, "The Politics of Stabilization," p. 106.

order, has also prompted governments to delay taking actions aimed at rectifying the impending economic situation until the crisis is acute.[87] Such internal pressure has also led governments to forsake adjustment programs before the economic measures are secured.[88] The approach of elections most notably inhibits adoption and implementation of reforms. Elections may in fact induce increased government expenditure on social goods and services, as evident in the patronage politics of Jamaica.

Inversely, reforms are most likely to be embraced immediately following an election or unscheduled change of government when the new administration is likely to boast high levels of legitimacy, opposition groups are in disarray, and the public mood grants the administration a defacto grace period in which to prove the worthiness of its economic policies.[89] When the grace period expires, generally in a matter of months, continued adherence to reforms rests on evidence that the efforts are succeeding. While failed reform programs demand that more attention be paid to political sustainability, for such failures constitute a wasted expense of resources and austerity endurance for no real gain, signs of success may be open to debate.[90]

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[87] Harker, p. 26.

[88] Nelson, "The Politics of Stabilization," p. 100.

[89] Nelson, "Introduction: The Politics of Economic Adjustment in Developing Nations," pp. 23-24.

[90] Nelson, "The Politics of Stabilization," pp. 101 and 107.

***Gains***

Gains or benefits may be measured on a variety of scales. Workers and consumers may gauge progress by improvements in their daily lives. Increased employment, slowed inflation, availability of staples, and fewer power outages may be cited by the public as modest improvements, while other economic indicators, such as increased international net reserves and reduced indebtedness, may be surveyed by officials of the Central Bank and Ministry of Finance as well as members of the private financial community. Small firms, like workers and consumers, may monitor more immediate tangible benefits, like credit availability and the costs of needed imports for the production process.[91] It is structural improvements in the pattern of output and demand that will ensure that the assorted gains are achieved. In regard to telecommunications, gains may be measured in the form of an increased compound annual growth rate in terms of main lines, residential lines, business lines and operating revenue.

***Size and Scale Constraints***

In providing the structural context in which improvements are to be made, the size of a country and its respective economy may enhance or impede the rate of structural transformation as it determines the realm of policy options available to

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[91] Nelson, "The Politics of Stabilization," p. 108.

governments. The small economy, as found in the island states of the Caribbean, is, arguably, more dependent on capital inflows for development than the large economy, because scale constraints curtail the growth of the domestic capital market, which, in turn, limits the range of financial instruments available and restricts the mobilization of internal finance.[92] The inherent dangers of this situation of limited capacity to service a large debt should prompt governments of small economies to refrain from excessive foreign borrowing and concentrate on realizing current account surpluses to finance expenditures, but scale constraints, in a cyclical fashion, could hamper such efforts.

Scale constraints, an outgrowth of the small domestic market, narrow the possible forward and backward linkages in the internal economy while, conversely, encouraging the formation of external linkages. The small size of the domestic market, and in the case of the Caribbean, the regional market, compels the creation of an export oriented economy, an economy which can profit from economies of scale. This skewed resource base suggests a reliance on imports of intermediate goods and raw materials.[93] It also insinuates heightened economic vulnerability. Since production is concentrated on a few products, fluctuations in the price of any one good or service have a weighty bearing on economic performance. Similarly, currency depreciation in small, open economies has a greater cross-sectoral impact than in larger countries with their wider reservoirs of domestic production.[94]

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[92] Howard, p. 8.

[93] Howard, p. 8.

[94] Harker, pp. 24-25.

Others, however, contend that the size of a country and its economy is not a fiscal policy constraint. They argue that small economies, as those of the Caribbean, are easier to manage than large ones, and that small countries are apt to be more decisive and capable of structural change since small size leads to greater homogeneity of interests which aids consensus in decisionmaking.[95] Others, in citing such successful small countries as Singapore, Hong Kong, and Malta, suggest that human resources development and sound economic management are more critical variables than size in the process of development and structural change.[96] While there is value in such contentions and greater social cohesion may be a benefit of small size, small countries do often find themselves in a weak position via conducting transactions in the international arena, including the lack of leverage with commercial creditors.[97]

Although Looney states that the standard definition of small is a population of less than five million, size may not be readily determined simply by physical properties or population, but by the ability of a country to set prices of an internationally traded good or service.[98] If price is viewed as an exogenous variable, an economy may be considered small.[99] As a price taker, the governments of small economies are

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[95] Howard, pp. 9 and 10.

[96] Stanley Lalta and Marie Freckleton, "Introduction," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 7.

[97] Howard, p. 10.

[98] Looney, p. 117.

[99] Howard, p. 9.

## Institutional Reform

Structural adjustment programs have regularly sought institutional reform of state owned enterprises due to their weak economic performance. The World Bank contends that when state owned enterprises lose sight of profitability, which may well be a peripheral concern, both economic and social objectives may be sacrificed.[103] Profitability, however, may not be the best indicator or measurement of performance. For reasons of more equitable distribution, public enterprises might assign low prices, which would, thus, result in lower profitability. The overall deficits of state owned enterprises, although admittedly an inadequate and perhaps even a misleading indicator of performance, have, however, been found to have grown at unsustainably high rates.[104] One argument suggests that the administrative capabilities of governments are overextended. The inefficiency of the public sector is generally associated with bureaucratic failure and political interference.[105] The public enterprise is, as noted, an instrument for political patronage in many developing countries. It is thus thought that privatization, by reducing political interference, will improve a firm's efficiency.

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[103] Don Babai, "The World Bank and the IMF: Rolling Back the State or Backing its Role," in The Promise of Privatization: A Challenge for U.S. Policy, ed. Raymond Vernon (New York: Council on Foreign Relations, Inc., 1988), p. 264.

[104] Raymond Vernon, "Introduction: The Promise and the Challenge," in The Promise of Privatization: A Challenge for U.S. Policy, ed. Raymond Vernon (New York: Council on Foreign Relations, Inc., 1988), p. 263.

[105] Richard Hemming and Ali M. Mansoor, Privatization and Public Enterprises, IMF Working Paper (Washington, D.C.: International Monetary Fund, 1987), p. 7.

***Privatization/Divestment***

Privatization can take various forms, including management contracting, leasing or franchising which may effectively remove the government from direct control of the assets though actual ownership remains unchanged.[106] Competition can enter at the stage of bidding for a franchise. Related to this is subcontracting where, instead of operating, say, the entire telecommunications system, a private firm may provide some specific service, such as the operation of pay phones, the preparation and printing of telephone directories, or the collection of payments.[107] Liberalization or deregulation of entry into activities previously restricted to the public sector, too, does not entail a transfer of ownership assets, though it does present opportunities for private investors. In regard to telecommunications, one may witness opportunities for the private sector to provide cellular service. The private sector, too, may become involved in building digital overlay networks which they may then own or transfer to the government. The activity, however, with which privatization has become most closely associated is divestiture or the sale of public sector assets.

The principal economic issue in the privatization debate concerns efficiency. The property rights school suggests that privatization in the form of a change in ownership, an alteration of the structures of property rights, will improve the incentives

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[106] L. Gray Cowan, Privatization in the Developing World (Westport, CT: Greenwood Press, 1990), pp. 6-7.

[107] Cavelle Creightney, "Regulatory and Competition Policy in the Telecommunication Industry Lessons for LDCS" (n.p.: n.p., 1990), p. 25.

for productive efficiency performance.[108] It recommends the privatization of public enterprises operating in competitive markets for competition compels companies to improve their performance, that is, increase allocative and productive efficiency in order to profit. It would thus seem that an improvement in the economic performance of the public enterprise sector is more likely to result from an increase in market competition than from a change in ownership.[109]

Divestiture, in itself, does not lead to the creation of a competitive environment nor to increased domestic entrepreneurship.[110] It is argued in the literature, though, that the replacement of a public monopoly by a private monopoly will increase productive efficiency due to the impact of reduced political interference and more effective financial constraints. It must be recognized that such a transfer of ownership of a public utilities monopoly does require regulation to ensure social efficiency through fair pricing arrangements.[111] Others contend that management, not ownership, is the key to efficiency of an enterprise.

Analysis of privatization can not be confined to debates concerning economic efficiency, but must address the political context for such decisions. As discussed, many state owned enterprises, including public utilities, constitute an agency of employment. Fears that privatization will increase unemployment may inhibit the

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[108] Cook and Kirkpatrick, p. 19.

[109] Cook and Kirkpatrick, p. 31.

[110] Ramsaran, p. 115.

[111] Howard, p. 61.

political regime from engaging in divestment for such a decision could entail the loss of support of both public sector employees and their representative trade unions.[112] In both Jamaica and Trinidad and Tobago, privatization of the telephony companies was undertaken with the understanding that it would entail no retrenchment of staff. Although employee share schemes aim at diffusing opposition to privatization, and, coupled with public share offerings assist in broadening the structure of private ownership, such methods of divestment are generally constrained in developing countries by the thinness of capital markets and the embryonic stature of the stock exchanges.[113] In such instances, unless efforts are made to increase market capacity to handle the float, denationalization is more likely to involve the sale of the enterprises as a complete entity, or, at least, controlling interest is sold to a single, often foreign, buyer.[114]

Inadequate levels of domestic savings coupled with capital flight in the context of stagnant or negative growth rates has forced many governments to adopt a more favorable disposition to private foreign investment, as exemplified by Seaga and subsequent administrations in Jamaica. In some instances, sales to foreign entities may be more politically neutral or palatable than sales to powerful, wealthy local groups dominated by a single ethnicity. The Indian diaspora in Trinidad and Tobago, Guyana, Kenya and Tanzania may constitute such a potent group. In Kenya and Tanzania the

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[112] Howard, p. 61.

[113] Howard, p. 63.

[114] Cook and Kirkpatrick, p. 3.

Indians are a minority, whereas in Guyana and Trinidad and Tobago they encompass 40 to more than 50 percent of the population respectively. Regardless of the proportion of the population they comprise, ethnic conflict between Indians and Africans is evident in each of these states. In Guyana and to some extent in Trinidad and Tobago, ethnic conflict has also, at times, resulted in political polarization of parties based on race. In other cases increased foreign interests may be deemed politically unacceptable and widening international inequalities in the distribution of wealth, yet, despite these concerns, a government may still find it necessary or desirable to sell to foreign interests if it is sold to an entity engaged in a similar activity. For example, in the telecommunications sector, governments of developing countries typically want partners with considerable experience in building and operating networks.

*Privatizing the Telecommunications Sector*

Problems with a state owned and operated telecommunications monopoly are not unlike those of other state owned enterprises. They are often inflexible, subject to political interferences, and have little incentive to provide efficient operations, quality service or responsiveness to customer needs.[115] This lack of efficiency is reflected in a bloated workforce, as noted; low levels of service penetration, especially in rural

[115] Norman Lerner, "Telecom privatization will aid int'l users," Network World, 7, No. 18, 30 April 1990, p. 41.

areas; long waiting lists for telephone service, and low call completion rates.[116] Partners are thus sought for their technological and management capabilities.

Financial commitments, however, are equally important for many governments of developing countries find themselves faced with the dilemma of replacing antiquated systems with modern equipment at a capital cost beyond their reach. It is thought that private investors with access to commercial lending sources and expanded credit possibilities will be better able to provide the capital necessary for the development of the telecommunications infrastructure and diverse services than a government which faces competing claims on funds raised by taxation. Privatization is also a means to acquire revenue for other development programs and debt reduction.

*Uses of Privatization Proceeds/Deficit Reduction*

The shortage of foreign exchange has been a compelling motive for many privatization programs. To scale back the burgeoning state sector by selling salable public assets to the private sector has been considered by some governments as a means of handling an acute capital shortage and acquiring funds for debt servicing or capital investments. Though the long term goal of privatization may be economic efficiency, the short term stimulus has often been deficit reduction.[117] For countries whose

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[116] Ambrose, Hennemeyer, and Chapon, p. 13.

[117] Ezra N. Suleiman and John Waterbury, eds, The Political Economy of Public Sector Reform and Privatization (Boulder: Westview Press, 1990), p. 14.

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deficits and debts have grown beyond control and can not be reversed by a continuation of the policy of state ownership, divestiture has become viewed as a means to raise revenue and reduce fiscal and credit pressures, that is reduce the high levels of borrowing, in part, by ending subsidies.

If the returns from a sale are applied strictly towards external or domestic debt, the effect will be but a one-time reduction in the government deficit, equal to the amount of the sales revenue. If the public enterprise is profitable, hence a more attractive candidate for sale, its privatization means that the government forfeits the future stream of income, unless it retains a large share, a partial divestiture.[118] The government of Trinidad and Tobago thus retained 51 percent of the country's telecommunications service provider. The sale of profitable firms, could, however, be made on the basis that proceeds from the sale would maintain social services and finance faster growth, and private management could increase efficiency. There are several options open to governments in the use of privatization proceeds. These options include using the revenue for current expenditures; tax reductions; 'social' capital expenditures; 'commercial' capital expenditures, including the restructuring of selected public enterprises; financing private investments; and, as noted, public debt reduction or non-increase in public borrowing.[119]

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[118] Cook and Kirkpatrick, p. 9.

[119] V.V. Ramanadham, "Concluding Review," in Privatisation in Developing Countries, ed. V.V. Ramanadham (London: Routledge, 1989), p. 428.

***Telecommunications Regulation***

Regardless of the use of the divestment proceeds, it is critically important that as the state reduces its stake in the telecommunications sector and its role as the public operator, it expand and enforce its regulatory role to accomplish policy objectives without public ownership.[120] When the state sells its assets, it does not necessarily abandon its regulatory or arbitrator function. In fact, it can come to have an even greater responsibility in establishing the rules of operation, for ensuring that the rules are obeyed, and for sanctioning transgressions of the rules.[121]

Regulation may be defined as the substitution of rules made by government for the competition of the market. Regulation is construed as control. Administrative law, policy, and practice applies regulation and similar terms somewhat differently in every country. Typically, regulation means control of some social authority by a duly authorized administrative agency of a government. Examples of regulation are found in the rules adopted under varied standards. For example, the U.S. Communication Act of 1934 created the Federal Communications Commission to interpret and regulate under standards set by the legislature in the statute. In another context, courts have powers of administration which could be exemplified by the control of the Bell system in the U.S. in the 1956 Consent Decree and again in the Modified Final Judgment that restructured the U.S. telephone industry.

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[120] Ambrose, Hennemeyer, and Chapon, p. 7.

[121] Suleiman and Waterbury, p. 11.

According to Roth, when the private sector plays a significant part in the provision of telecommunications services, there are three important roles that the government may need to perform: (1) award and regulate franchises; (2) specify appropriate technical standards; and (3) ensure access to all systems.[122] The International Telecommunications Union (ITU) outlines several regulatory policy issues. These include:

> (1) define the distinction between public and private services, (2) interpret the law and reconcile policy objectives, (3) ensure fair competition for new entrants, (4) ensure efficient procedures for interconnecting between new and existing service providers, (5) check on reasonable pricing to cost ratios and relate this to quality of service, (6) authorize and assure transparency of schemes for subsidies where required, and (7) establish clear-cut dispute resolution procedures.[123]

Regulation can, thus, set the conditions for the sector's operations, the rules for entry, the extent of competition, exit guarantees (in the case of foreign investments in the sector), type approval, general surveillance, pricing of monopoly services and service quality, and legal procedures for conflict resolution.[124]

Hills contends that regulation is generally intended to effect a transfer of wealth from producers to consumers. Hills writes that regulation may be regarded as 'social'

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[122] Gabriel Roth, The Private Provision of Public Services in Developing Countries (U.S.: Oxford University Press, 1987), p. 188.

[123] International Telecommunications Union Centre for Telecommunications Development, "Restructuring of Telecommunications in Developing Countries" (Geneva: ITU, April 1991), presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, p. 25.

[124] International Telecommunications Union, p. 18.

when it safeguards those interests which the market cannot be expected to meet through the operation of the profit motive.[125] Profit-based private telecommunications entities cannot be expected to voluntarily finance uneconomic activities, such as the provision of service in rural areas.[126] Hills contends that where universal service is the goal, committed government policy is essential.[127] A purely market-driven system of allocation will tend to produce a system that concentrates disproportionately in the main cities and on the largest and wealthiest customers.[128] Price and profit controls are required to prevent a monopoly supplier of services from extracting excessive profits from the business.[129] Profit ceilings and ways to make companies invest in non-business areas as well as cross-subsidies to provide universal service can be required of private monopolies through regulation.

Managers of privately owned telecommunications entities may be tempted to use their relative or absolute monopoly position to maximize profits by increasing charges to unreasonable levels or by reducing expenditures for service quality and expansion. These profit-maximizing tendencies require direct government regulation of utility charges and service quality, modified where possible by the introduction of some form

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[125] Jill Hills, Deregulating Telecoms (Westport, CT: Quorum Books, 1986), p. 29.

[126] Hills, Deregulating Telecoms, p. 29.

[127] Jill Hills, "Universal service: liberalization and privatization of telecommunications," Telecommunications Policy, 13, No. 2, June 1989, p. 129.

[128] Bjorn Wellenius, Peter A. Stern, Timothy E. Nulty, and Richard D. Stern, eds., Restructuring and Managing the Telecommunications Sector (Washington, D.C.: The World Bank, 1989), p. 12.

[129] International Telecommunications Union, p. 24.

of competitive pressure.[130] Some government agency must be prepared to remove or reduce the private monopoly if service is unacceptable or rates unreasonable.

Roth argues that government regulation is needed in regard to the main network, but not necessarily with respect to subscriber equipment or value added services.[131] Poole contends that regulation of prices may be needed if there is only one supplier in the market, but when there are multiple suppliers, there is no need for price controls.[132] This, however, assumes that the market structure is not dominated by a single firm and that competition is workable. Pro-competitive regulation can use the attempts by market entrants to compete or to find profitable niches in the market, and serve as a check on the pricing, quality, and efficiency of the incumbent entity, thus obviating to some degree the need for price and profit controls.[133] Some agency or government body with specific legal authority, however, must oversee, coordinate, and enforce uniform standards of performance for transmission and terminal equipment when the system includes more than one operating entity.[134]

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[130] Wellenius, Stern, Nulty, and Stern, p. 34.

[131] Roth, p. 170.

[132] Robert Poole, "The Political Obstacles to Privatization," in Privatization and Development, ed. Steve H. Hanke (San Francisco: Institute for Contemporary Studies, 1987), p. 43.

[133] International Telecommunications Union, p. 23.

[134] Wellenius, Stern, Nulty, and Stern, p. 31.

In sum, as traditional telecommunications monopolies yield to more complex structures and growing numbers of participants, the government's role in encouraging and regulating sector activity becomes distinct and increasingly important.[135]

> This role includes the regulation of tariffs and financial flows among operating companies to ensure the sector's viability as a whole, its responsiveness to broader development objectives, and the containment of monopoly; the regulation of financial flows between the sector and government to meet resources mobilization objectives; the setting of technical interconnection standards to ensure the integrity of the network; the licensing and monitoring of use of the radio spectrum, a scarce natural resource; and representation of the sector in international technical and administrative negotiations.[136]

Governments need to establish policy-making and regulatory capabilities separate from the operating entities and not subject to undue political influence. An effective regulatory agency should have a considerable degree of financial and administrative autonomy, and should be essentially independent in its regulatory decisions.[137] It should be invested with sufficient autonomy to limit the possibility of its being captured by particular interest groups.[138] Institutionally, some countries rely on independent commissions, as in the U.S., Canada, and Sweden, or councils, as in the U.K. and

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[135] Wellenius, Stern, Nulty, and Stern, p. 94.

[136] Wellenius, Stern, Nulty, and Stern, p. 94.

[137] Bjorn Wellenius, "Telecommunications Restructuring in Latin America: An Overview," presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, p. 21.

[138] Hemming and Mansoor, p. 18.

Australia. Others have separate regulatory units within the Telecommunications Ministry, such as in Kenya, Germany, and Nigeria.[139]

The terms by which a regulatory authority may carry out its functions can be specified by statute and orders made under statutory authority or by license. It is argued that the more detailed and specific the license terms, the less there is a need for an additional mechanism of sector specific statutes. Furthermore, reliance on statutes tends to be inflexible where legislative procedures are slow.[140] Although an understanding of the use of regulatory power can serve to reduce the risk of selling such strategic industries as telecommunications, many governments of developing countries are inexperienced in the use of regulatory power.[141] Analysis and experience of regulatory policy in many developing countries is rudimentary, in part because they lack the technical and managerial capacity to perform the regulatory duties.[142] Wellenius writes that the development of regulatory capacity has lagged far behind privatization of the state enterprise. He cites Chile as an example where little has been done to develop the telecommunications regulatory authority because of the judiciary's failure to resolve major issues of market structure and competition policy.[143] Although privatization of the telecommunications systems in Mexico, and

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[139] International Telecommunications Union, p. 25.

[140] International Telecommunications Union, pp. 24-25.

[141] Cowan, p. 15.

[142] Cook and Kirkpatrick, pp. 26-27.

[143] Wellenius, p. 13.

to a lesser extent in Argentina, included adequate provisions for regulatory action and regulatory agencies were competently outlined and formally set up before the state enterprises were transferred to the new owners, the privatizations were largely completed before these agencies could build up a basic core of regulatory expertise needed from the start.[144]

The power to regulate is only beginning to be understood; judicious use of it without impeding private initiative can provide the government with enough control to give direction to development without itself becoming immediately involved.[145] The utilization of regulatory power can allow governments to divest state owned enterprises without losing control of development. A critical issue, however, is how long it will take developing countries to establish competent, effective and independent regulation.

***Alternatives to Privatization***

Though state enterprises, properly managed, can play a vital role in economic transformation, privatization is perhaps an easier option to implement than other forms of institutional restructuring. Reallocating and retraining personnel and altering incentives for managers of public enterprises so as to encourage new forms of behavior, including more autonomous decisionmaking and increased accountability, appear to be beyond the capabilities of many states. Part of the problem is that such institutional

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[144] Wellenius, p. 13.

[145] Cowan, p. 102.

reforms, like efforts to expand exports, require time to work effectively. Despite deleterious effects on the growth process, short run solutions, such as cuts in imports and divestment, may be employed, especially in the context of high debt servicing requirements.

Debt servicing, however important it is deemed, can not be made at the expense of growth and investment. In many developing countries, debt service payments exceed the inflows of new capital. Creditworthiness has not generally increased, despite the implementation of adjustment programs.[146] Indeed, evidence indicates continued low capital flows to most developing countries throughout the 1990s. The need for injections of new capital coupled with a reduction of debt payments, however, must be recognized for effective reform. Ramsaran suggests that, as part of the structural adjustment effort, actions on the international level be undertaken to relieve the debt problem and to stabilize commodity prices.[147] Pantin suggests that in democratic political structures, governments, with Parliamentary or Congressional approval, place ceilings on foreign borrowing based on worst-case assumptions concerning foreign exchange earnings and exchange and currency rate fluctuations.[148]

In the process of economic reform, it becomes critical that states not divest themselves of social responsibility, but transform themselves into efficient facilitators of development by shifting government expenditure, to the extent possible, into income

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[146] Ramsaran, p. 160.

[147] Ramsaran, p. 44.

[148] Pantin, p. 72.

generating activities, diversifying the export base and developing intersectoral linkages. The state must, too, create a legal and institutional environment for private and public firms to work and compete. It is important that the state, in moving toward market-based mechanisms, not simply reduce its role in the economy, but redefine it in such a way as to enable it to stimulate and promote new and existing production by both the public and the private sectors. Such a strategy can potentially encompass small entrepreneurs, including those of the informal sector, and collective production organizations, for instance, cooperatives and community economic enterprises.[149]

Harker suggests that governments strive for a virtual symbiosis between the public and private sectors.[150] As the economy of any given country is an integral part of the larger global economy, it could be commended that a symbiosis also take place between industrialized and developing countries in the pursuit to achieve economic growth and development on a sustained basis. In this context, perhaps aid and multilateral lending with its associated conditionalities, which have become institutionalized in the relationship between developed and developing countries, too, could be subject to reform.

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[149] Witter and Anderson, p. 101.

[150] Harker, p. 44.

# II. METHODOLOGY

## The Comparative Strategy

### *A Similar Systems Design*

In employing a case-oriented comparative research strategy, one can apply the method of agreement. In so doing one initially examines underlying similarities among those cases demonstrating some common outcome or characteristic or what has been referred to as studies of concomitant variation. Such research is based on the premise that systems as similar as possible with respect to as many characteristics as possible comprise the optimal choices for comparative inquiry.[151] A similar systems design is considered a "maximum" strategy in that the number of experimental variables, in this case, between the two Caribbean states chosen for this study, while still large, have been minimized. It is thought that the factors attributable to differences, where found among otherwise similar countries, will be small enough to warrant explanation in terms of those differences alone.[152] In employing such an approach, the similarities identified between the cases chosen are shown to be causally relevant to the phenomenon of interest. Then, on the basis of the similarities identified, a general

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[151] Adam Przeworski and Henry Teune, The Logic of Comparative Social Inquiry (Malabar, FL: Robert E. Krieger Publishing Co., 1982), p. 32.

[152] Przeworski and Teune, p. 32.

explanation is formulated.[153] In the relative measurement of two or more phenomena, the importance is the differences and similarities between the cases while making the comparison.

Jamaica and Trinidad and Tobago were chosen for a comparative study since the two countries possess several notable similarities, including common cultural attributes. As former British colonies which both received their independence in 1962, the countries inherited legal systems which owe their basic concepts to English common law and adopted the same political regime type, the Westminster system of parliamentary government with a Prime Minister as head of government. Jamaica, like most independent countries of the Commonwealth Caribbean, retains the British monarch as the titular head of state, represented by a local Governor General, whereas Trinidad and Tobago, akin to Guyana, has adopted a republican status with a President as head of state. The political parties and initial party leadership grew out of strong trade unions in both countries. Party rivalry has, however, tended to be more intense in Jamaica while the government of Trinidad and Tobago can best be described as a one party state under the People's National Movement. Although Trinidad and Tobago boasts a higher GNP per capita, US$3,940, as compared with Jamaica's US$1,340,[154] each country witnessed a period of economic decline which was followed by new

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[153] Charles C. Ragin, The Comparative Method (Berkeley: University of California Press, 1987), p. 45.

[154] World Bank, World Development Report 1994 Infrastructure for Development (New York: Oxford University Press, 1994), pp. 162-163.

governments emerging victorious from national elections. Economic reforms were then undertaken.

The two small countries, considered such since their respective populations are less than three million, fit a similar economic typology. They may both be classified as small, open economies which may also be described as mineral economies, given that bauxite in Jamaica and oil in Trinidad and Tobago have constituted, at various times, at least 40 percent of each country's exports. Both countries also privately negotiated the sale of shares in the telecommunications sector with Cable and Wireless, an international telecommunications company based in the United Kingdom which has historically provided telecommunications service throughout the British Caribbean.

Despite these similarities, differences exist between the two countries, both in their macroeconomic performance and relations with external lending agencies and in their approach to institutional reform, specifically telecommunications privatization. In Trinidad and Tobago the government engaged in a partial divestment of the telecommunications sector, retaining 51 percent of the shares and selling only 49 percent to Cable and Wireless. In Jamaica a complete divestment was gradually employed in which Cable and Wireless came to acquire 79 percent of the shares in Telecommunications of Jamaica and the Jamaican public 21 percent through a public share offering. In addition to differences in the process of divestiture and in the resulting share ownership structures, network investment also varies between the two islands as does the telecommunication regulatory frameworks. In some ways Jamaica and Trinidad and Tobago, thus, diverge from each other while in other ways they

parallel each other. It is this combination of similarities and differences which encourages comparison and analysis.

By examining differences and similarities in context it is possible to determine how various combinations of conditions have the same causal significance and how similar causal factors can operate in opposite directions.[155] The focus here is on how conditions, specifically economic decline and new national governments, combine to effect a similar outcome, privatization of the telecommunications sector. The goal of this case-oriented research is both historically interpretive and causally analytic; that is, it seeks to construct limited generalizations regarding the causes, external debt and general economic difficulties, of theoretically defined categories of empirical phenomena, privatization of the telecommunications sector, which is common to both cases.[156]

***The Comparative Case Study***

Since the research is interdisciplinary in nature with several contemporary, interrelated issues being examined, this work employs the comparative case study which draws upon multiple data sources to investigate a specific phenomenon. The case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life

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[155] Ragin, p. 49.

[156] Ragin, p. 35.

context when the boundaries between phenomenon and context are not clearly evident.[157] The primary weakness of the case-oriented strategy is its tendency toward particularizing or specification.[158] Case studies, like experiments, are not generalizable to populations or universes, but to theoretical propositions. The goal of the research is thus to generate analytic generalizations and not statistical ones.[159]

The case study is a frequently used policy research method, since it promotes an examination of the process by which an intervention or policy action has been implemented. The case study often seeks to explain causal links in interventions that are too complex for the survey or experimental methods, and to describe the context in which an intervention has occurred.[160] Case studies are both longitudinal in that they cover an extended period of time and holistic in that they attempt to examine numerous variables.

Since this study is concerned with policy and regulatory analysis and employs economic, political, and communications concepts and theories, this method is appropriate for the essence of a case study is that it seeks to illuminate a decision or set of decisions: why was privatization of the telecommunications sector undertaken, how were the shares divested, how is the industry regulated, and what is the impact of this regulation on operations and service? In addressing these questions the research

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[157] Robert K. Yin, Case Study Research Design and Methods (Newbury Park, CA: Sage Publications, Inc., 1989), p. 23.

[158] Ragin, p. 69.

[159] Yin, p. 21.

[160] Yin, p. 25.

attempts to construct an explanation about the divestment of telecommunications in Jamaica and Trinidad and Tobago by making statements about the causes of this phenomenon. It also seeks to provide an analysis of the effects of privatization and of regulation on the sector's performance, which varies between the two cases. In its examination the work explores the relationships between securing foreign investment to upgrade the telecommunications sector and reduce official debt and expanding services to pursue economic and social goals.

While not implying a particular data collection method and thus not constituting a formal methodology, a major strength of case study data collection is the use of several different sources of evidence. This comparative case study is based on three sources: documentation, archival records, and elite interviews. Comparable data was collected in each country in a one time research effort in which longitudinal data was collected in a five week period. Since time constraints prohibited direct on-site observations of key events, critical information was obtained via interviews and documents.

Documentation sources include, among other references, administrative documents from the telephone companies in question, that is, internal documents and minutes of meetings; studies conducted by the World Bank and works by academicians; and news articles and editorials from the Jamaican newspapers, The Daily Gleaner and The Jamaica Record, and the Trinidad and Tobago Gazette and Express. The resources of the University of the West Indies in Mona and St. Augustine, particularly the Institute of Social and Economic Research Documentation and Data Centre in Mona;

the Planning Institute of Jamaica; the Ministry of Planning in Trinidad, and the United Nations Caribbean Documentation Centre were used to locate pertinent materials. Archival records draw upon organizational records of the telephone companies, including organizational charts and budgets. Focused interviews, which averaged two hours, were conducted of those intimately involved with the telecommunications sector in the respective countries. Such persons included the Chief Executive Officer and/or President of the telephone companies under investigation as well as other members of upper management; board members, both former and current; the Minister responsible for public utilities; attorneys; trade union leaders; and managers involved in the information processing business in free trade zones. These interviews, while open-ended in nature and assuming a conversational tone, followed a specific set of questions. A significant advantage of using these multiple sources of evidence is the development of converging lines of inquiry, a process of triangulation.[161]

Since case studies allow an investigator to trace events over time, the chronological development of events is reviewed. The dissertation does not, however, employ a chronological structure in its written presentation, but a linear-analytic structure which is applicable to explanatory, descriptive, and exploratory case studies. It does not contain separate chapters devoted to the individual case studies, rather the entire work consists of a cross-case analysis in which each chapter is devoted to specific issues and the information from the individual countries is addressed in separate sections within the chapters.

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[161] Yin, p. 97.

# III. THE POLITICAL-ECONOMIC ENVIRONMENT

This chapter seeks to assess the political and economic context in which Jamaica and Trinidad and Tobago have pursued a policy of divestment. It assesses economic developments and changes in political leadership since the mid to late 1970s, and traces each country's relations with external lending agencies. The current state of Caribbean affairs and a brief review of structural problems common to many of the islands provides the initial framework in which Jamaica and Trinidad and Tobago are then examined in detail.

## The Caribbean in Review

### *Single Commodity Economies*

The Caribbean islands originally played a role in the international economy as exporters of agricultural commodities, particularly sugar and bananas. Their historical legacy as plantations has continued to the present day. By failing to fundamentally address serious structural deficiencies in their economies and continuing to emphasize the weak traditional agricultural export sector, the region is plagued by a high degree of import dependency on foodstuffs, energy, intermediate goods and capital goods.[162] The limited manufacturing sector in the region tends to rely heavily on imported

[162] Girvan, p. 110.

materials. By increasing domestic production of food, which constitutes a significant portion of the import bill, imports could be reduced.[163] Although adjustment efforts in the region are often synonymous with severe import cuts, the undiversified structure of Caribbean economies denotes a limited ability to reduce imports without adversely affecting internal production and export expansion.[164] Indeed, the exports of most of the islands remain dominated by a single commodity, ie., bauxite in Jamaica and Guyana, bananas in much of the Eastern Caribbean, oil in Trinidad and Tobago, and tourism in Barbados.

Tourism has, in fact, developed as a major export sector in many of the islands and has come to replace sugar, which has been dealt a detrimental blow by U.S. sugar quotas, as the principal source of foreign exchange. Inter-island competition for tourists is intense; and, unfortunately, the tourist industry, like other sectors, has developed few linkages with local economies, therefore, much of the foreign exchange leaves the region.[165] Tourists often demand foodstuffs and a host of other products, including clothing, which must be imported. Tourism, too, is adversely affected by economic recession in the U.S. and Canada, primary sources of tourists to the region, and is

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[163] Helen McBain, "Foreign Capital Flows and Caribbean Economic Development," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 135.

[164] Girvan, p. 106.

[165] Robert Pastor and Richard Fletcher, "21st Century Challenges for the Caribbean and the United States: Towards a New Horizon," presented at the World Peace Foundation Conference, Kingston, Jamaica, 10-12 January 1991, p. 24.

vulnerable to political change. Tourism, is, thus, a fragile foundation on which to model viable medium or long term growth.

The mono-commodity economies of the Caribbean are also highly vulnerable to fluctuations in the international market, with demand instability in the sector generating corresponding insecurity in fiscal revenues and foreign currency receipts. Countries dependent on a single sector are challenged to construct policies for short term macroeconomic management when prices cascade. Mineral economies, such as those of Guyana, Jamaica and Trinidad and Tobago, tend to be even more susceptible to economic dislocations than other primary exporting countries since they tend to be less diversified.[166]

When demand for the resources of a mineral economy is robust, investment in the sector can provide a source of rents to finance other ventures and may also form the basis of an industrialization strategy. Mineral economies, however, also present obstacles to development in that the resources themselves are depletable; demand, as noted, is often unstable; and, beyond a certain level, rents are difficult to extract.[167] The fact that mineral resources are depletable suggests that these countries must diversify their economic base as the mineral resources are gradually expended. Failure to diversify, as will be discussed with regard to Trinidad and Tobago and Jamaica, is economically detrimental. As Ramsaran notes, economic diversification constitutes a

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[166] Looney, p. 111.

[167] Looney, pp. 110-111.

major area of failure for Caribbean economic policy.[168] In basing economic projections, economic incentives, domestic wages and consumption on the erroneous grounds that the revenue generated from the mineral wealth would endure indefinitely, Jamaica and Trinidad and Tobago laid the foundation for long term economic difficulties.[169]

***Trade Agreements and Investment Funds***

In addition to the problematic situation in which the Caribbean economies export a limited range of services and primary products which are subject to slow growth and wide price fluctuations, the geopolitical concentration of trading is highly skewed to the U.S., Canada, and the U.K. Fortunately for Commonwealth Caribbean countries, two of their major exports to the U.K., sugar and bananas, neither of which could compete on an open market, are granted special consideration under the Lome convention.[170] This preferential trading arrangement, however, may be subject to change with European unification. Further, the exportation of sugar must now compete with increased production in the European Community and greater use of substitutes in other major markets.[171] This presents a dismal picture for sugar which continues to

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[168] Ramsaran, p. 36.

[169] Looney, p. 111.

[170] Ramsaran, p. 37.

[171] Ramsaran, p. 42.

constitute both a significant export and a notable employer of labor in the Caribbean. Sugar has been subsidized in some cases so as to not contribute to the high levels of unemployment and underemployment, another feature of the region's weak economic structures. Sugar, too, is excluded from preferential access to the U.S. market under the Caribbean Basin Initiative (CBI).

*CBI*

The CBI was inaugurated with Ronald Reagan's advent to the U.S. presidential office and was initially conceived to offer both free access to the U.S. market for exports from the Caribbean and substantial new investment funds for the region. However, as the proposal proceeded through the labyrinth of the U.S. Congress, the planned investment funds were eliminated and restrictions were appended which limited U.S. market access for specific key exports. When finally approved by Congress in 1983, the CBI excluded, among other commodities, sugar, oil products, leather, luggage, footwear, and textiles.[172] Ramsaran notes the irony and hypocrisy in the U.S. insisting, on one hand, that import controls are an obstacle to economic development and structural adjustment, and, on the other, employing protectionism to exclude key goods from preferential access under the CBI.[173]

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[172] Quick, p. 18.

[173] Ramsaran, p. 92.

These exclusions clearly curtailed the potential trade benefits the CBI could provide to the region. Few of the region's exports derived any benefit from the CBI, for numerous commodities are already exported to the U.S. under the U.S. General System of Preference (GSP) which grants duty-free treatment to specified imports.[174] The trade provisions of the CBI were originally intended for a 12 year period, but in 1990 were extended indefinitely, the product exemptions withstanding.[175]

The CBI, while offering limited access to the U.S. market, did not require analogous treatment for U.S. exports in Caribbean markets. It is possible, though, that pressure might be placed on Caribbean states to engage in reciprocal free trade if the proposed "Enterprise for the Americas" is successful. The initiative seeks to create free trade arrangements with the U.S. and the countries of Central and South America and the Caribbean.[176] Delegates at the Summit of the Americas, which was held in Miami in December 1994, endorsed the goal of a regional free trade agreement and set the deadline for concluding a hemisphere-wide agreement as 2005. The first phase of the negotiations seeks to integrate Chile into the North American Free Trade Agreement which presently comprises the U.S., Canada and Mexico.

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[174] World Bank, "The Caribbean: Exports Preferences and Performance," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 82.

[175] World Bank, "The Caribbean: Exports Preferences and Performance," p. 82.

[176] Quick, p. 20.

*936 Funds*

In regards to U.S. investment funds to the Caribbean, in 1986, the rules governing financial deposits of Puerto Rican tax exempt firms were liberalized to permit such funds to be used elsewhere in the region through the Puerto Rican Caribbean Development Program (CDP). The CDP uses the profits of U.S. corporations on deposit in Puerto Rican banks awaiting the five-year period that exempts them from a 10 percent Puerto Rican tollgate tax.[177] Section 936 of the U.S. Internal Revenue Code allows U.S. corporations operating in Puerto Rico to repatriate earnings free of U.S. federal taxes. Under the U.S. Tax Reform Act of 1986, private banking institutions and the Government Development Bank for Puerto Rico can invest 936 deposits in business assets and public projects in the beneficiary countries of the CBI.[178] To be eligible for 936 fund access, however, the recipient country must be a signatory of a Tax Information Exchange Agreement with the U.S. which allows the U.S. Internal Revenue Service to override domestic banking laws and obtain taxpayer information from the country, including bank records and other confidential documents.[179] The leading offshore banking centers in the region, notably the

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[177] Ted Johnson, "Caribbean Basin Becomes Large Telecommunications Market," Telematics and Informatics, 7, No. 1, 1990, p. 6.

[178] Patricia McCormick, "The Caribbean: A Paradise for Offshore Activities," in the 17th Annual Third World Conference Proceedings (Chicago: TWCF Publications, Inc., 1992), p. 434.

[179] Johnson, p. 6.

Cayman Islands and the Bahamas, have, thus, abstained from ratifying the agreement, though several other countries of the region, including Jamaica and Trinidad and Tobago, have done so.[180]

***Regional Currencies***

Most countries in the region, with the exception of Puerto Rico and Panama, have, however, refrained from adopting the U.S. dollar as the national currency. It is possible, though, that more states could follow the example set by Panama and Puerto Rico should they decide that monetary autonomy is no longer feasible. Most national currencies have fared poorly through the 1980s and into the 1990s. The deviation to the region's unstable currencies is the international stability of the Eastern Caribbean (EC) dollar. The Organization of Eastern Caribbean States (OECS) created a multi-island central bank with strict limits placed on its ability to finance fiscal deficits in member states.[181] Real export sector decline has contributed to extensive use of central bank money creation to finance the fiscal deficits of many countries, including Jamaica, Guyana and Barbados, which has, in turn, engendered balance of payments difficulties. A regional currency accompanied by credit creation limitations could be facilitated by establishing a single bank for the Caribbean Community (CARICOM),

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[180] McCormick, pp. 434-435.

[181] Quick, p. 28.

which was established in 1973 to facilitate areas of regional integration.[182] Monetary integration, however, has remained an unaccentuated aspect of regional cooperation.[183]

***Economic Integration***

While monetary integration may have alleviated the region's indebtedness, which is owed mainly to official, bilateral and multilateral, creditors, market integration would appear to be of little economic benefit. Since most of the countries in the region share similar assets and weaknesses, they, thus, tend to possess a comparative advantage in similar activities, exporting comparable commodities and competing in the same regional and external markets.[184] Farrell, thus, argues that only resource and production integration are sensible.[185]

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[182] CARICOM member states consist of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Barbados, Belize, The Bahamas, Guyana, Jamaica and Trinidad and Tobago. The first seven of these states comprise the Organization of Eastern Caribbean States. The entire CARICOM population constitutes but some five million people.

[183] Wendell A. Samuel, "Caribbean Economic Integration," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 171.

[184] Trevor Harker, "The Caribbean in the Context of the Global Crisis," in Development in Suspense, eds. George Beckford and Norman Girvan (Kingston: Friedrich Ebert Stiftung, 1989), p. 24.

[185] Trevor Farrell, "The Caribbean State and its Role in Economic Management," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 209.

***Telecommunications Integration***

*CANTO*

The creation of regional telecommunication organizations has, however, proven viable and profitable. The Caribbean Association of National Telecommunication Organizations (CANTO), based in Trinidad and Tobago, is an example of a successful cooperative effort. CANTO is a trade group whose members comprise the national telephony companies in the region. It must be noted, though, that the "national" telephone companies are principally owned, at least partially, by foreign telecommunication service providers. Cable and Wireless, as will be discussed in the next chapter, is the primary provider of service throughout the former British colonies of the Caribbean. One may thus question whether CANTO constitutes a truly regional organization or an organization of corporate satellite companies. Regardless of one's interpretation, CANTO has been successful in negotiating volume discounts with equipment vendors. Since the introduction of the program in 1988, CANTO members have saved several million U.S. dollars.[186]

CANTO has also witnessed growth from its inception in 1985 with eight telephone companies of the English-speaking Caribbean to some 35 telecommunication carriers in 1994. The telephony companies of the French-speaking islands of Haiti,

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[186] International Telecommunication Union, World Telecommunication Development Report 1994 (Geneva: ITU, 1994), n.p.

Guadeloupe, and Martinique are members of CANTO as are those from the Central and South American states of Belize, El Salvador, Guatemala, Honduras, Mexico, Panama, and Venezuela. Puerto Rico and Cuba are also members. To maintain the cohesion of CANTO as it expands numerically and culturally presents a challenge for the organization, but such growth also strengthens its collective purchasing power and thus its negotiating power.[187] Members of CANTO have benefitted from stable and relatively low international call accounting rates based on multilateral negotiations with international carriers and U.S. regulatory agencies. CANTO also hosts an annual general conference and trade show held in different member states. CANTO is simultaneously forging links with the wider community of the Americas while strengthening its regional base of support through cooperating with the Caribbean Telecommunications Union (CTU), also based in Trinidad and Tobago.

*CTU*

CTU, which was officially inaugurated in July 1990, was conceptualized by CARICOM, hence, the members of CTU comprise the governments of the Caribbean Community. Other Caribbean countries are also eligible for membership. CTU coordinates with the International Telecommunication Union and other civil organizations on regional telecommunications projects, participates in feasibility studies,

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[187] Caribbean Association of National Telecommunication Organizations, CANTO Directory 1992-93 (n.p.: CANTO, n.d.), p. 2.

provides training advice, and organizes seminars and conferences in an attempt to encourage the exchange of information among the member countries and foster technical coordination.[188] Both CTU and CANTO may serve as models for political integration which has thus far failed in the main.

***Public Administration***

This failure to politically integrate the states of the Caribbean may be an outgrowth of ineffectual public administrations. Numerous authors (Farrell, Ramsaran, Worrell, etc.) concur that public administration in the region has not been structured to effectively manage state owned enterprises. Political interference has gained entry into many of the firms' operations. Distinguishing between policy and execution and corresponding responsibilities has proven to be a gray administrative area.[189] Incompetent state institutions and resultant indebtedness account, in part, for the states' pursuits of privatization. Institutional reform presents a major challenge to Caribbean states, for bureaucratic processes can impede development as detainment in decisionmaking often entails a cost.[190]

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[188] Caribbean Telecommunications Union, "Many Nations One Destiny" (Port of Spain, CTU, n.d.), n.p.

[189] DeLisle Worrell, "Comparative Experience of CARICOM Countries," in Development in Suspense, eds. George Beckford and Norman Girvan (Kingston: Friedrich Ebert Stiftung, 1989), p. 71.

[190] Ramsaran, p. 42.

Countries in the region have been slow to address disintegrating economic and social conditions. Enduring unemployment remains the same as in 1970 with real living standards in many countries falling below 1970 levels. Goods supplied by the region, too, remain the same for the economies have failed to diversify and extend the range of available products.[191] Rather than designing a strategy and executing measures to arrest the degeneration, many countries opted to apply crisis management solutions, ie., printing money, borrowing, and increasing indirect taxes to support untenable levels of expenditure.[192] Such near-sighted solutions have made more arduous the process of adjustment.

## The Political-Economy of Jamaica

Adjustment programs and measures do not appear to have fundamentally transformed the structurally dependent economy of Jamaica in ways essential to reduce its susceptibility to external market forces and pave the way for development in the 1990s. The structure of Jamaican exports remains unaltered. The country relies on a few exports, notably tourism and bauxite and alumina, which have few upstream and downstream linkages with other economic sectors and which generate relatively little

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[191] Delisle Worrell, "Recent Economic Experience and the Search for New Guidelines," in Economic Adjustment Policies for Small Nations Theory and Experience in the English-speaking Caribbean, eds. DeLisle Worrell and Compton Bourne (New York: Praeger Publishers, 1989), p. 6.

[192] Ramsaran, p. 42.

employment. Its few foreign exchange earners also tend to possess a high import content, ie., fuels for alumina production and food for tourists.[193] Direct consumption by all sectors of the Jamaican population is also primarily reliant on imports. Jamaican society is a conspicuous portrait of inequity with its gross maldistribution of resources. In this extremely economically skewed and socially stratified society, persistent poverty and chronically high unemployment have forced many into the informal economy. Efforts at "higgering and hustling" have, however, done little to actually improve living standards and arrest the decline in real income which stems, in part, from excessive currency devaluation.[194]

***The Manley Administration of the 1970s***

Jamaica's current economic difficulties, like those of Guyana, date back to the mid-1970s. Fiscal and monetary policy was decidedly expansionary at this time. While the 1972-1980 administration of Michael Manley, leader of the People's National Party (PNP), sought to provide greater social services, it would appear that investment in the non-mining sector of the economy was also necessary in the effort to provide government with sufficient revenue to meet expenditures. Public expenditures increased at a rate which exceeded the rate of growth of income. External factors adversely affected the balance of payments during this period of the PNP's rule, namely,

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[193] Ramsaran, p. 20.

[194] Howard, p. 101.

increased energy prices, inimical terms of trade, high interest rates in world markets, a recessionary phase in the U.S. economy and the consequent decline in tourism, and general economic pressures from the U.S. which undermined Manley's efforts to create a more socialist state. While cognizant of these external factors, domestic shortcomings must also be recognized, including ineffectual address of underlying structural problems.[195]

Unable to sustain its policies due to an acute shortage of foreign exchange, a fall in its credit rating, and the absence of alternative financing, the Manley administration sought assistance from the IMF. In June of 1977 the government signed a one year standby agreement with the IMF, but this was terminated in December of that year when the Bank of Jamaica failed to pass the net domestic assets test.[196] In 1978 Jamaica entered into a three year Extended Fund Facility with the IMF. The extended duration of the agreement was designed, in part, to overcome the inherent difficulties of successfully implementing measures in a short, one year time frame. Jamaica, however, was not able to pass the net international reserves test for the EFF, which was then suspended 19 months after being implemented. The country too failed to meet the performance criteria for the Supplementary Financing Facility which had been negotiated in 1979, and renegotiations for the EFF failed.[197]

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[195] Looney, pp. 11 and 17.

[196] Pantin, p. 20.

[197] Sylvia Charles, "Structural Adjustment and the Regional Economies," Bulletin of Eastern Caribbean Affairs, 14, Nos. 5 & 6, November 1988 to February 1989, p. 33.

The government deemed that the measures proposed by the IMF, tactics which stressed external balance through monetary and budgetary abatement, would have created social dislocations and constrained economic growth. The National Executive Council of the ruling PNP proposed curtailing relations with the IMF.[198] The government, in vacillating in its negotiations and handling of the IMF, whose policies featured as a major issue in the 1980 elections, lost its bid for re-election. Manley's supporters viewed his cooperation with the IMF as an abandonment of the PNP platform which advocated democratic socialism.

***The Seaga Administration of the 1980s***

Edward Seaga of the Jamaican Labour Party (JLP) emerged victorious from the politically violent elections of 1980 in which several hundred people were killed. The JLP election manifesto had stated the intention to 'create a market system of economics . . . to shift unnecessary public enterprises to the private sector so as to remove the burden of finance from Government.'[199] This policy platform was heartily embraced by U.S.A.I.D. and the Bretton Woods institutions which both gave continuous advice, pressure, and support to Seaga throughout his 1980-1988 reign. Seaga signed several

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[198] Pantin, p. 20.

[199] G.E. Mills, "Privatisation in Jamaica, Trinidad and Tobago," in Privatisation in Developing Countries, ed. V.V. Ramanadham (London: Routledge, 1989), p. 386.

Sector and Structural Adjustment Loans with the World Bank and several agreements with the IMF between 1981-1988.

Seaga, immediately upon his electoral victory, struck an alliance with the Reagan administration to transform Jamaica into the model of successful capitalist development in the Caribbean. Seaga was a strong promoter of the CBI and consistently furthered U.S. geopolitical interests in the region, an example being his support of the U.S. invasion of Grenada in 1983. In exchange, the Reagan administration intervened on Jamaica's behalf in the deliberations with multilateral organizations and also granted Seaga generous amounts of aid.[200] U.S. assistance, which had dropped to US$2.6 million in Manley's last year in office, increased to US$69.5 million in 1982.[201] Jamaica became one of the fifth highest per capita recipients of U.S. aid.[202]

Seaga was also successful in his initial relations with the Bretton Woods institutions. The policies and actions related to its Structural Adjustment Loan with the World Bank were consistent with its IMF agreement, a three-year EFF which came into being in March 1981. The SAL and EFF both sought economic recovery and sustained growth through the adoption of an export oriented strategy that emphasized the role of the private sector, though this aspect of the reform program the JLP was slow in

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[200] Omar Davies, "The Effects of Structural Adjustment Policies in Jamaica: 1980-1987" (n.p.: n.p., 1988), p. 9.

[201] "U.S./Caribbean: Economic Relations," Transafrica News, 2, No. 3, June 1982, p. 5.

[202] Evelyne Huber Stephens and John D. Stephens, "The Political Economy of Structural Adjustment: The Seaga Government in Jamaica," presented at the XIV Annual Meeting of the Caribbean Studies Association, Barbados, 23-29 May 1989, p. 2.

implementing. The EFF was relatively mild in its conditionality, requiring neither a devaluation nor a reduction in public sector employment. The mild IMF criteria, a noted change from the more severe demands placed on the Manley administration a year earlier, was based on optimistic projections for increases in output in virtually every economic sector.[203]

Based on forecasts for increased production of bauxite, sugar, and bananas, Seaga relaxed or abolished import controls in 1981. Imports thus increased by US$260 million to US$1.3 billion by 1982. Imports remained at more than US$1 billion throughout Seaga's years in office, while per capita income fell between 1980 and 1988 such that by the late 1980s it was approximately 25 percent below that of 1970.[204] Exports, too, decreased during the same period.

The optimistic projections for economic growth based on increased production of bauxite, sugar, and bananas were not fulfilled and some contend were politically motivated. The Seaga administration had been informed by the staff of the Jamaica Bauxite Institute that industry trends indicated stagnation, if not, a further decline in bauxite exports. Stephens and Stephens thus argue that the JLP fabricated the optimistic projections to justify maintaining the then prevailing rate of exchange and thereby ensure continued political support. [205] Further, the non-traditional sectors which the free market policies promoted could not compensate for the decreased

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[203] Davies, p. 11.

[204] Ramsaran, p. 25.

[205] Stephens and Stephens, p. 7.

earnings from the bauxite sector.[206] Viable economic diversification was not attained. A sizable balance of trade deficit resulted.

In deregulating imports, the government could have simultaneously devalued the currency in an attempt to restrain imports and thus bridge the trade gap. The government, too, could have focused on adjustment measures which favored an increase in the level of exports. It failed to successfully pursue these strategies and was also unable to attract significant direct foreign investment. The Seaga administration, thus, came to finance the trade deficit principally with foreign loans.

*Debt*

Jamaica's foreign debt steadily increased during the 1980s. In 1980 it amounted to US$1.9 billion or 57 percent of GNP.[207] By 1989 the total debt stocks had grown to US$4.5 billion or 129 percent of GDP, making it one of the world's most severely indebted countries on a per capita basis.[208] As a result of this swelling debt and successive devaluations, debt servicing increased from 26 percent to more than 40 percent in the same time period.[209] Debt servicing, which, arguably, receives higher priority than the expansion of the capital base, has been problematic for Jamaica and

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[206] Pantin, p. 37.

[207] Ramsaran, pp. 20 and 165.

[208] World Bank, World Debt Tables 1992-93, Volume 2, Country Tables (Washington, D.C.: The World Bank, 1992), p. 206.

[209] Ramsaran, p. 20.

rescheduling arrangements have been sought to alleviate economic pressures.[210] However, since the majority of Jamaica's debt is owed to official sources, not commercial banks, as is the case in Central and South America, its ability to reschedule payments is restricted. The position of the country's net foreign assets has also deteriorated as a result of the enlarged public indebtedness.

*Leniency to Austerity*

By 1983, the EFF had been aborted due to the failure of the administration to pass performance tests set by the IMF. As Seaga understood that leniency on behalf of external creditors was to be replaced with more stringent conditionalities, he called a snap election in October 1983. This decision was in conscious violation of a 1980 inter-party agreement that no new elections were to be held until mutually agreed reforms in the voter registration and electoral system had been enacted. In response, the PNP boycotted the election. Seaga now reigned with a one-party Parliament for another five years.[211] In addition to the absence of organized Parliamentary opposition, Seaga further concentrated his authority by assuming responsibility for key portfolios, including finance, and delegating little influence to most other Cabinet members. Seaga's stratagem could certainly be seen as a corrosion of democratic tradition. His administrative practices were in sharp contrast to those of Manley who

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[210] Ramsaran, p. 22.

[211] Stephens and Stephens, p. 10.

had relied on open dialogue and extensive power sharing. The flexibility of the Westminster system allows for either concentrated or diffused authority.[212] Highly centralized authority can, however, facilitate the implementation of reforms.

Seaga enacted several reforms, among them, the removal of extensive price controls; the abolishment of quantitative restrictions on imports; the introduction of incentives to industry, including free trade zones, and, on the revenue side, the expansion and diversification of taxes and the installation of a more efficient tax collection system.[213] Seaga signed a new standby agreement with the IMF, which replaced the EFF in late 1983 and established much more austere terms, including, among other conditionalities, an immediate devaluation of the Jamaican dollar, increases in taxes and utility rates, a restriction on wage increases and the elimination of subsidies on imported basic foods.[214] Similar conditionalities were associated with another standby, signed in August 1985, but by the next month, the Seaga administration had failed three performance tests and the agreement was suspended.[215] Vigorous austerity measures had failed to stabilize the economy and debt servicing increased.[216]

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[212] Joan M. Nelson, "The Politics of Adjustment in Small Democracies: Costa Rica, the Dominican Republic, and Jamaica," in Economic Crisis and Policy Choice, ed. Joan M. Nelson (Princeton: Princeton University Press, 1990), p. 201.

[213] Nelson, "The Politics of Adjustment in Small Democracies: Costa Rica, the Dominican Republic, and Jamaica," p. 194.

[214] Pantin, p. 21.

[215] Pantin, p. 21.

[216] Joan M. Nelson, "The Politics of Adjustment in Small Democracies: Costa Rica, the Dominican Republic, and Jamaica," p. 192.

Given this failure and an atmosphere of popular protests, the Jamaican government began to change course, in both rhetoric and policy. At the joint annual meetings of the World Bank and the IMF held in Seoul in 1985, Seaga publicly denounced the institutions, criticizing the short time frame allocated for adjustment. He then invited a delegation from the IMF, the World Bank, and U.S.A.I.D., which became known as the "fresh look" mission, to review the adjustment program in Jamaica. Seaga sought modification of the program to encourage economic growth. He argued that Jamaica had effected numerous adjustments and undertaken sufficient austerity measures which now warranted more growth oriented policies.[217]

The tripartite taskforce took its 'fresh look' at Jamaica in January 1986 and reported its findings in April 1986, by which time there was no operational IMF agreement in Jamaica. The tripartite delegation, rather than confirming Seaga's judgment of the economy, concluded that, in fact, the administration had not employed ample austerity measures. Specifically, the report stressed the need for continued restrictive demand management policies and determination of the exchange rate by market forces which was tantamount to further devaluations.[218] It was perhaps this last implication which caused Seaga, in presenting the 1986-87 budget, to reject the verdict of the "fresh look" team and introduce policies directly contrary to those recommended by the external agencies. Also, the government's revenue position had

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[217] Stephens and Stephens, p. 3.

[218] Davies, p. 33.

improved, in large part, due to the fall in oil prices and the fact that this benefit was not passed on to consumers in the form of lower gasoline prices.[219]

Seaga reintroduced price controls, restored subsidies on a range of basic imported items, lowered interest rates, and commenced road construction. In addition, the administration diverted funds to the Foreign Exchange Auction to effectively fix the exchange rate, then J$6.40 to US$1.00, at J$5.50 to US$1.00.[220] In a controversial move, the government also concluded forward sales of bauxite, reportedly securing markets for ten years, which the PNP considered mortgaging the country's future bauxite and alumina production, in order to obtain monies for current expenditures.[221]

The only area in which Seaga appeared to move in concert with the tripartite delegation was the immediate divestment of the National Commercial Bank and plans for the privatization of other state owned enterprises. One actually would have expected the administration to have embarked upon a vigorous divestment program earlier, given its stated commitment to the free enterprise model, but rhetoric and practice often part ways. It is much easier to espouse ideas, especially those which are popular with external lending agencies, than to actually institute reforms which may meet with political opposition. The trade unions in the country vigorously resisted divestment.

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[219] Davies, p. 36.

[220] Pantin, p. 21.

[221] Stephens and Stephens, p. 11.

In some respects the JLP, too, appears to have disregarded privatization, for the administration acquired the country's only oil refinery, increased the government's equity ownership in the bauxite/alumina company, JAMALCO, and expanded the operations of the Commodity Trading Corporation, the sole importer of a range of goods, including motor vehicles. These efforts were undertaken despite the fact that the JLP had created a Divestment Committee in 1981. The Committee emphasized two fundamental principles:

> (1) The policy of divestment of equity and control in commercial enterprise at prices based on commercial criteria after taking into account the nation's interest.
>
> (2) The intention to discontinue operating enterprises not commercially viable; but where appropriate, attempts would be made to establish viability via private sector participation, failing efforts at outright sale.[222]

The principle objectives set forth were (i) to ensure that public funds were not misallocated to inefficient enterprises; (ii) to reduce and eliminate the strain on the budget; and (iii) to release government's resources from commercial enterprises for alternative uses.[223] While laudable objectives, no major state owned enterprises were divested until 1986, when the primary task at hand was securing electoral victory.

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[222] Mills, pp. 386-387.

[223] Mills, p. 387.

*The 1986 Local Elections*

It would appear that in 1986, the year of local elections, the government could not solve the budget deficit with politically costly solutions such as additional budget cuts and increased taxation. Divestment was, thus, undertaken in an attempt to raise funds for budget support, including road construction, a traditional source of patronage in rural areas. Policy changes, as noted, were made in a late attempt to provide some relief for the poorer sectors of the population. Its tardy efforts to rectify deteriorating socio-economic conditions could not, however, resuscitate popular support for Seaga and the JLP. The PNP won the election by a wide margin. Since local government is relatively weak, the PNP's victory was largely symbolic of the public's dissatisfaction with the country's economic decline. The electoral outcome was nonetheless notable in that it marked only the second time since the mid-1950s that the party in power did not win local elections. The election was also atypical in that the campaigns were waged on national issues, as for general elections.[224]

*Continued IMF Negotiations*

After losing the local elections in July, the Seaga administration proceeded to resume negotiations with the IMF in August for a new standby agreement. Although decreased direct investment inflows since the mid-1970s have made official inflows of

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[224] Stephens and Stephens, p. 4.

far greater significance, negotiations between Jamaica and external creditors have often proven difficult to mediate. By 1987 eight of the nine agreements signed with the IMF since 1977 had been suspended due to non-achievement of set targets.[225] Nonetheless, in early 1987 the government entered into two sector adjustment loans with the World Bank and a 15-month standby with the IMF. As of 1988, Jamaica had received more funds per capita in World Bank structural adjustment lending than any other country.[226]

In an apparent concession to Seaga, the new standby, announced in January 1987, did not insist upon an immediate devaluation. As part of the agreements, though, the government did agree to embark on a sustained program of divestment of state owned enterprises.[227] The standby ran until March 1988 and in September of that year another standby with similar stipulations was agreed upon which ran until November 1989. Contrary to the IMF agreement to reduce the government deficit, the impending national elections required an increase in public expenditures, particularly in the areas of roads, health and education. Jamaica's system of patronage politics accounts, in part, for the budgetary increases in 1987-88 and 1988-89.[228]

Divestment, here again, was employed as a measure to cope with the budget deficit in a situation where an increase in expenditure on social services was deemed

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[225] Tyson, p. 4.

[226] McAfee, pp. 67-68.

[227] Davies, p. 38.

[228] Stephens and Stephens, pp. 4 and 8.

indispensable for the government's political survival. Telecommunications of Jamaica (TOJ), which will be discussed in detail in the next chapter, was formed and shares sold, as were shares in other state owned enterprises, in an attempt to yield funds for the government's electoral campaign. In the Budget Debate in the House in May 1988 Seaga projected that a total of $430 million was to come from divestment in that fiscal year, including $100 million from TOJ.[229] Seaga, nonetheless, lost the election in 1988 and Michael Manley was again at the helm of government, though his socialist policies had been relinquished.

***The 1990s***

Manley and many supporters of the PNP now conceded that the programs of the 1970s had depended too much on the state, and the economy itself could no longer rely on bauxite earnings as the industry's future was unclear. The political moderation of Manley translated into ideological congruence with the JLP and the continuation of its policies. At times, in fact, the PNP intensified the privatization policies and market-oriented economic strategies advocated by the JLP. The PNP's continuation of privatization may be attributable to, as Letwin and Cowan note, political factors as much as financial ones. In late 1990, in a move which analysts said signalled an intensification of the privatization program, the Manley administration transferred the National Investment Bank of Jamaica (NIBJ), the holding company for state owned

[229] Stephens and Stephens, p. 4.

enterprises, from the Ministry of Development, Planning and Production to the Office of the Prime Minister.[230] Manley sought to reinvigorate NIBJ and assigned it two main roles.

First, NIBJ was to serve as a central implementing agency for the government's privatization program. Previously, responsibility for privatization was scattered among various government agencies. Since privatization spans numerous ministries, it was decided that a centralized implementor would best avoid turf battles, bureaucracy, and other obstacles to the privatization process. Second, NIBJ was to act as a catalyst, a facilitator for the private sector. By coordinating teams of private sector advisors who conduct background research and prepare the state owned enterprises being placed for sale, NIBJ was to shorten the approval process for privatization.

According to Peter Bunting, Vice-President of NIBJ, NIBJ's perspective had changed; the government was no longer going to hold the majority share or management responsibility in any of the investments.[231] It would enter into joint ventures, but only as a minority shareholder. Since the venture capital markets in Jamaica are in a fledgling state, it was Bunting's contention that there existed a legitimate role for the government to facilitate investments, but with a planned take-out.[232] According to Bunting, the government will be out of an investment in 7 to

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[230] "Manley 'intensifies' privatisation plan," Latin American Regional Reports Caribbean Report, 13 December 1990, p. 2.

[231] "Privatization Accelerated Under New Direction. Interview with VP of National Investment Bank of Jamaica," Jamaica Outlook, 3, No. 4, October 1991, p. 2.

[232] "Privatization Accelerated Under New Direction," p. 2.

10 years, having sold its shares to the private sector, and it will then go on to seed new projects.[233]

In addition to these significant changes occurring within NIBJ, Manley also sought change in his cabinet. To create a more effective and responsive public service, Manley suggested, was one of the reasons for the unexpected cabinet change, made in December of 1990.[234] In announcing the cabinet reshuffle, Manley said that it was the result of 'a continuing review of the functioning of the government' and reflected the new 'market-based economic strategy' being implemented.[235] 'The machinery of government is being further streamlined to ensure the most effective co-ordination of economic policies and programmes and to provide an efficient basis for performance by the productive sector,' Manley stated.[236]

It is perhaps noteworthy that Manley instructed the changes in his cabinet and NIBJ in late 1990, the year in which Jamaica was forced to renegotiate an agreement for a US$108m standby credit, reached with the IMF earlier that year. Relations with multilateral lending agencies had proceeded unabated. The damage inflicted by Hurricane Gilbert in September 1988, however, demanded the downward revision of IMF targets. The Manley administration, upon assuming office in February 1989, thus found itself obliged to undertake a program of severe stabilization.

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[233] "Privatization Accelerated Under New Direction," p. 2.

[234] "Manley 'intensifies' privatisation plan," p. 2.

[235] "Manley 'intensifies' privatisation plan," p. 2.

[236] "Manley 'intensifies' privatisation plan," p. 2.

In early 1990, the Manley administration negotiated a new standby with the IMF which required, among other conditions, a devaluation, the introduction of a General Consumption Tax, removal of subsidies on basic foods, and limits on wage increases. In what appears to have become a pattern of IMF-Jamaica relations, the agreement was suspended after Jamaica failed economic performance criteria set by the IMF. As no small nation with a debt burden like Jamaica can afford to break with the IMF, the country agreed to the targets set in the revised agreement, which ran until 31 March 1991, in order to have the program reinstated.

It would thus appear that the fear of losing IMF financial support explains the series of aggressive reforms undertaken in the second half of 1990 for the IMF targets included a reduction of the public sector deficit; GDP growth of 3 percent; and a US$67m increase in net international reserves.[237] It was also agreed that the government would allow Jamaica's commercial banks to clear US$157m in private sector arrears in 30 months, and would itself clear US$90m of official arrears on its foreign debt by mid-March 1991.[238] In reducing the fiscal deficit, the government agreed to cut capital expenditure, 'retrench and reorganize' state owned enterprises, and limit subsidies on the services of public utilities. The government also sought to introduce a series of tax measures aimed at raising revenue for the state, additional divestment of state enterprises and liberalization of the exchange rate.

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[237] "Jamaica's IMF agreement modified," Latin American Regional Reports Caribbean Report, 13 December 1990, p. 5.

[238] "Jamaica's IMF agreement modified," p. 5.

*Devaluation*

Cumulative payment arrears during 1989 led to a depreciation of the exchange rate from J$5.50 to US$1.00 in June to J$6.19 to US$1.00 in October. This prompted the PNP to suspend the exchange auction, which had been introduced by Seaga in 1983, in October 1989 and set the exchange rate at J$6.50 to US$1.00.[239] By mid-year 1990, the persistent dearth of foreign exchange coupled with IMF pressure induced the government to abandon the fixed rate regime and return to a market based system.[240] In lieu of the chronic scarcity of foreign exchange, it appears that Jamaica's existing monetary framework requires reformulation, for the country has witnessed a notable depreciation of the exchange rate in the 1990s.[241] As of January 1995, the exchange rate stood at J$33.00 to US$1.00.

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[239] Bank of Jamaica, Research and Economic Programming Division, "Macro-Economic Developments in Jamaica During 1990," presented at the Mid-Term meeting of the Regional Programme of Monetary Studies, Bahamas, 27-28 May 1991, p. 3.

[240] Karl M. Bennett, "Exchange Rate Management in a Balance of Payments Crisis. The Guyana and Jamaica Experience," presented at the XXIII Annual Conference of the Regional Programme of Monetary Studies, Belize City, Belize, 25-28 November 1991, p. 14.

[241] Vindelyn A. Smith, "Monetary development within the context of Liberalisation The Case of Jamaica," presented at the XXIII Annual Conference of the Regional Programme of Monetary Studies, Belize City, Belize, 25-28 November 1991, p. 1.

*The Patterson Administration*

In addition to successive currency devaluations, the PNP also witnessed a change in leadership in the 1990s. In early 1992 Manley resigned due to ill health. His post was filled by P.J. Patterson who assumed office on March 30, 1992. Patterson won the country's General Elections in March 1993. Patterson, like Manley, has followed a moderate policy line, acquiring another EFF in early 1993. Patterson's options are arguably, however, limited by the economic quandary he has inherited. The structure of the Jamaican economy remains weak, and the growth of parallel currency markets reflects the severe shortage of foreign exchange.[242] After years of external aid and accompanying conditionalities, Jamaica remains in a state of disequilibrium with a crippling debt burden, a highly unequal distribution of wealth and income, severe deficits in infrastructure and housing, an impoverished working class, and an implosion of social violence destroying the very fabric of Jamaican society.

***Summary***

In sum, it would appear that excessive foreign borrowing on behalf of the government is a major cause of the serious economic difficulties being experienced by Jamaica. These economic problems could, perhaps, have been mitigated by early adoption of appropriate policies of consumption constraint, selective import controls,

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[242] Howard, p. 81.

and export promotion.[243] It is also argued that the generous levels of aid in 1981-1982 postponed necessary reforms while increasing the debt burden.[244] The failure to implement pivotal policy changes due to the availability of high levels of external finance is an example of the deviation effect of which Kahler writes.[245] Seaga borrowed more during his first two years in office than previous administrations had borrowed in the entire preceding decade.[246] Further, had the various administrations not defined their problems restrictively and employed a crisis management approach to their resolution, but addressed the situation in terms of more fundamental structural change, the country could have realized some socio-economic benefits.

As it stands, foreign debt management constitutes a formidable challenge for the country and privatization is but a band-aid approach to a deeply rooted ill. Debt servicing limits the amount of resources available for social services, domestic borrowing, imports, investment, and other programs. Declining productivity and import dependence suggest the continuation of restrictions on expenditure, and yet low or negative real per capita earnings, due to ceilings on wage increases and inflation levels higher than the ceilings, demand a creative compensation package.[247] However, as Witter and Anderson state, the efficient provision of social services on the scale

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[243] Looney, p. 72.

[244] Nelson, "The Politics of Adjustment in Small Democracies: Costa Rica, the Dominican Republic, and Jamaica," p. 206.

[245] Kahler, p. 155.

[246] McAfee, p. 126.

[247] Tyson, pp. 14 and 15.

required will be unaffordable by any administration in Jamaica, regardless of political will, for the foreseeable future.[248] The hurdles which the country must vault as it enters the 21st century include the need to diversify and increase its exports, reduce its dependence on imports, and make debt servicing a more manageable proportion of the government's budget.

## The Political-Economy of Trinidad and Tobago

Unlike Jamaica, which Howard describes as a case in which public expenditures as a pattern of fiscal behavior created a fiscal disequilibrium scenario, Trinidad and Tobago (T-T) exemplifies a case of export slump fiscal disequilibrium.[249] This contention, however, simplifies the situation, for the Trinidadian government, that is, the People's National Movement (PNM) under Eric Williams (Prime Minister, 1962-1981) and George Chambers (Prime Minister, 1981-1986), also mismanaged the petroleum export-led economy during the economic upswing. The PNM failed to mobilize its oil revenue to diversify and increase the internal dynamics of other sectors of the economy. It also failed to curb expenditures during the boom period and prepare for adverse price and production changes. Nonetheless, the unravelling of the Trinidadian economy in the 1980s is largely attributed to decreased oil earnings due to the depressed state of the international oil market since 1982, an exogenous factor, and

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[248] Witter and Anderson, p. 101.

[249] Howard, p. 17.

declining domestic oil production. The economic downturn, which reached crisis proportions by the mid 1980s, necessitated economic reform. While in the case of Jamaica economic reforms have been undertaken in conjunction with the Bretton Woods institutions for nearly two decades, such measures have taken place in T-T only in recent years.

***From Boom to Bust***

An increase in the price of oil largely enabled real per capita GDP to increase by more than 60 percent in T-T between 1970 and 1980.[250] In a similar vein, per capita consumption increased by more than 100 percent between 1974 and 1983.[251] T-T's surplus on current account as a proportion of GDP also witnessed a steady increase during this period. The net foreign reserves of the country increased from US$34 million at the end of 1973 to US$3,203 million at the end of 1981.[252] The government was thus able to effect significant savings. During the late 1970s, early 1980s, T-T was a net lender of funds, allowing regional institutions to raise funds on the local market and lending to other CARICOM states.[253]

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[250] Ramsaran, p. 25.

[251] Ramsaran, pp. 31-32.

[252] Ramsaran, p. 144.

[253] Ramsaran, p. 166.

The authorities did, however, confront problems related to the management of a booming economy which are no less tractable than those of an economy undergoing adjustment. The problems included limited absorptive capacity and the difficulties of controlling burgeoning petrodollars and inflation. Budget spending was not held in sufficiently close check and efforts to govern the money supply were ineffectual.[254] The maintenance of a long-term development fund in which a substantial portion of government surpluses were held was forfeited as the government instead wielded oil revenues as a means to increasingly expand civil service employment.[255] Human resources, technology, and administrative deficiencies, however, served as impediments to growth.[256] The policy response was inappropriate to the unprecedented windfall of earnings which obscured the underlying imbalances of the economy. The failure to exercise prescience, institute an oil depletion policy, impose suitable monetary and fiscal restraint and heed the signals warning of the impending downturn in economic activity created the need for enacting more difficult adjustment measures later.

With declining revenues due to the plunge of the price of oil from more than US$30 per barrel in the early 1980s to US$10 in 1986, government savings were quickly dissipated as they were used to finance the ensuing deficits. Reserves were

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[254] Worrell, "Recent Economic Experience and the Search for New Guidelines," p. 10.

[255] Worrell, "Comparative Experience of CARICOM Countries," p. 69.

[256] Terrence W. Farrell, "Monetary Policy in Trinidad and Tobago, 1974-1985," in Economic Adjustment Policies for Small Nations Theory and Experience in the English-speaking Caribbean, eds. DeLisle Worrell and Compton Bourne (New York: Praeger Publishers, 1989), p. 148.

virtually depleted by 1986 for public expenditures were sustained at a high level despite the fall in oil revenue. The PNM government failed to fully employ fiscal restraint and readily adjust its expenditures in accord with its reduced earnings. A 33 percent devaluation of the local currency in terms of the U.S. dollar was enacted in December 1985. The devaluation coupled with the decline in oil prices increased the debt service ratio of T-T. Per capita income in T-T plummeted in the 1980s by one of the sharpest degrees among countries of the hemisphere, roughly 30 percent.[257] Per capita consumption, too, fell by nearly 50 percent between 1983 and 1987 as unemployment rates simultaneously rose.[258] Private foreign investment also waned. The external debt of the central government grew from seven percent of GDP in 1980 to 30 percent in 1988.

The country continually lost foreign reserves after 1982 such that by 1988 the net foreign reserves position became negative for the first time. T-T was thus compelled to utilize its reserve tranche at the IMF, as it had drawn on its SDR holdings in the previous year. In 1988, T-T also borrowed from the IMF's Compensatory Financing Facility, and in early 1989 it secured a standby agreement with the Fund.[259]

T-T sought arrangements with the IMF in order to ease its schedule of foreign debt repayments, that is, the accord was a prerequisite for applications to reschedule the country's external debt with creditor institutions. Unlike Jamaica, T-T borrowed more

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[257] Ramsaran, pp. 25 and 42.

[258] Ramsaran, pp. 31 and 32.

[259] Ramsaran, p. 146.

heavily from commercial and bilateral institutions than multilateral agencies. The state owned enterprises of the creditworthy T-T were able to borrow heavily from commercial institutions in the 1970s and early 1980s to finance ambitious development programs, a case in point being the domestic telecommunications service provider, the Trinidad and Tobago Telephone Company. A large portion of the government borrowed funds were also channeled into the highly capital intensive energy-based industries which were designed as part of the diversification effort, but to date have failed to yield the anticipated foreign exchange. Most of the loans fell due for full payment by the early 1990s. Unable to repay some US$1.8 billion falling due between 1989 and 1991, IMF assistance was sought. The administration of the National Alliance for Reconstruction (NAR), which had previously espoused the need to avoid dependence on the IMF, now justified its involvement on the basis of its contribution to an orderly rescheduling of the country's external debt, servicing of which had grown to constitute some 20 percent of foreign exchange earnings.

***The NAR Administration***

The NAR, under Prime Minister A.N.R. Robinson, had routed the PNM from office in the elections of December 1986. It was an unprecedented victory, for the PNM had ruled undefeated since the country gained independence in 1962. Support for the newly formed coalition party was indicative of the deplorable state of the economy. The victory of the NAR is like that of the JLP in 1980 - both are examples of new

governments winning the national elections after a long period of economic stagnation or decline. In each case leaders were committed to reform and there was widespread public support for change and a large majority vote for the new party. It was at this juncture in each country that a major reform effort was undertaken. The NAR, with its newly found favor, a prime time as Nelson notes to initiate reforms, enacted a series of economic reforms. The government imposed a 15 percent value added tax (VAT) on most goods and services, enacted a 15 percent currency devaluation in 1988 and in the following year began to subscribe to various conditionalities associated with IMF standby agreements.

The broad aims of the 1989 IMF agreement were to reduce domestic and external imbalances while promoting economic growth. The program sought to reduce the public sector deficit from seven percent of GDP in 1988 to four percent in 1989 and then to one percent in 1991. Limitations were placed on Central Bank advances to commercial banks. Trade and exchange systems were liberalized and price controls were limited to a select number of essential goods and services.[260]

Unlike Jamaica, all the performance criteria and targets of the 1989 IMF agreement had been observed and the balance of payments indicated signs of improvement. The success of T-T was due in part to the fact that the situation was not as intractable as that in Jamaica. Although both countries sold shares in their telecommunications sector, T-T retained 51 percent as they could economically afford to do so whereas the shares held by the Jamaica government were gradually dissipated.

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[260] Howard, p. 76.

Further, it was perhaps easier for a new administration, an anomaly such as the NAR which had never before been elected, to institute a package of reforms than an administration in Jamaica where the pendulum of power swings back and forth between the two parties. It should be borne in mind, though, that the NAR did not secure reelection in 1991, though its success in adhering to the IMF agreement was used to justify a new policy package.

In 1990 a Structural Adjustment Loan with the World Bank in a co-financing package with the Japanese Export-Import Bank and a second standby with the IMF were agreed upon.[261] The new IMF program projected a continued decline in the public sector deficit, due, in part, to the reduction of state employees. In 1989 1,100 employees of state enterprises had been cut, and the 1990 program estimated a further reduction of 3,000 employees. In addition to other reforms, subsidies to state enterprises were reduced and salary cuts imposed.[262] The SAL, similarly, required some restructuring of the state enterprise sector. The conditionalities of the SAL were, in the main, in alliance with the objectives and recommendations of the T-T government.

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[261] Dennis Pantin, "Meeting the Short Term Social Debt: The Case of Trinidad and Tobago," presented at the Caribbean Round Table on Structural Adjustment and Employment Issues, Port of Spain, Trinidad, 13-15 May 1991, p. 26.

[262] Howard, pp. 76-77.

*Restructuring State Enterprises*

The NAR's election Manifesto, later adopted as a policy document by the Cabinet, indicated its resolve to improve the management of the state enterprises sector and undertake a program of divestment. The NAR's fiscal efforts thus sought reformation of state owned enterprises through a variety of measures. In early 1987, the government appointed a team headed by Frank Rampersad (the Rampersad Committee on the Rationalization of State Enterprise) to review the performance, and assess the viability and future prospects of state owned enterprises and make recommendations for reform, including financial restructuring, divestment and closure.

The Committee deemed that the only criterion which should guide State participation in industrial and commercial enterprises was the promotion of economic transformation. The Committee found that many of the state enterprises were inefficient due to technical problems and an absence of effective budgeting arrangements and accountability. In addition, the state enterprises bore a burdensome debt since some 35 percent of the loans were government guaranteed.[263] Furthermore, some 60 percent of the external debt of the state enterprises were denominated in currencies other than U.S. dollars.[264] This situation thus posed potentially higher costs for debt servicing in the event of exchange rate changes. It was at this time, as will be discussed in detail

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[263] Kelvin Sergeant and Penelope Forde, "The State Sector and Divestment in Trinidad and Tobago: Some Preliminary Findings," Social and Economic Studies, 41, No. 4, December 1992, p. 185.

[264] Sergeant and Forde, p. 186.

in the next chapter, upon the recommendation of the Committee, that a foreign investor was solicited to purchase shares in the Trinidad and Tobago Telephone Company, some of whose debt has been secured in Japanese yen. The Committee also advocated the divestment of other enterprises.

*National Investment Company*

The NAR sought to divest state owned companies, in part, to satisfy the debt owed to public sector employees. Due to arrears of salary or pay for the years 1987 to 1991, the government came to owe approximately TT$2.3 billion to public sector employees.[265] The debt was owed to some 100,000 employees and on average was in the range of TT$20,000 to TT$25,000.[266] To resolve this dilemma, the NAR proposed creating a National Investment Company (NIC) for the explicit objectives of facilitating the government's policy of widening public participation in business enterprises and satisfying the State's obligation to the public sector employees.

The capital required to establish the NIC would comprise shares of several of the most profitable state owned companies.[267] The NIC would then use its

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[265] Robert Fleming & Co. Limited, Specification for A National Investment Company (n.p.: Flemings International, 1991), p. 2.

[266] Robert Fleming & Co. Limited, p. 2.

[267] Rawle Mitchell, "The National Investment Company: The Institution, Its Objectives, and Likely Consequences," presented at the XXIII Annual Conference of the Regional Programme of Monetary Studies, Belize City, Belize, 25-28 November 1991, pp. 1 and 8.

shareholding of the various state enterprises as the basis for the issue of units. It was proposed that two types of shares or units in the NIC be created, Participating Redeemable Shares to be issued to the public sector employees and Founder Shares held by the State which would dispose of its shares on the stock market. This flow of securities would expand and enhance the character of the stock market, though it was considered that the capacity of the domestic capital market could be insufficient to absorb the shares. Sales of NIC shares would initially be used to raise funds for approximately 15 percent of each employee's entitlement, after which units in the NIC would be dispensed in lieu of additional back pay. Unitholders would then be able to

> deposit units with banks as security for loans; sell units to third parties during the fixed term; and at the end of each fixed term redeem units at net asset value or the guaranteed minimum amount whichever is the greater. Unitholders [would] then be able to elect to have redemption proceeds paid directly to them in cash or invested in a different long-term investment vehicle.[268]

A suitable mechanism for long-term investment by unitholders was to be designed to supersede the NIC which was to have a finite life of five years.

This unique financial institution linking debt to public servants to divestment did not materialize, however, as the NAR lost their bid for re-election in 1991. The PNM resumed power under Patrick Manning and, in an effort to promote political popularity after the election, proceeded to borrow the funds necessary to repay the public sector employees. The PNM persisted, however, in the pursuit of largely the same policies set forth by the NAR. Continuity of the policies constituted by the JLP is also evident,

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[268] Robert Fleming & Co. Limited, p. 6.

as noted, in the successive leadership of the PNP in Jamaica. In T-T, the PNM continued to relinquish state capitalism as a development strategy and further private interests, in part, through divestment of state enterprises.

*Debt Management*

The proceeds from the sale of state enterprises were employed, in part, to reduce the country's external liabilities or debt servicing.[269] Divestment, as in Jamaica, is again regarded as one means of debt management. As it takes several years to create new sustainable foreign exchange earners, such as, in this case, other natural gas based industries, it appears that T-T will continue to rely on oil earnings for the foreseeable future. This is to say that T-T will be dependent on the precarious prices of the market and its own declining production levels, since no significant oil reserves have been found since 1968.[270] Although non-oil export strategies are being pursued, it is advisable that external debt management be predicated on existing oil production at the low end of the price spectrum.[271]

Pantin counsels that ceilings be placed on both government expenditure and foreign borrowing based on conservative assumptions about export earnings and

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[269] Republic of Trinidad and Tobago, Medium Term Policy Framework: From Stabilisation to Growth 1993-1995 (Port of Spain: Central Statistical Office Printing Unit, 1992), pp. 23 and 52.

[270] Pantin, p. 41.

[271] Pantin, p. 34.

exchange rate fluctuations. He also recommends that the T-T Constitution be amended so as to require Parliamentary approval of all current and future expenditures via local and foreign borrowing as well as the acquisition, sale or leasing of State assets.[272] In addition to suggesting avoidance of an overvalued exchange rate and a differentiated interest rate policy, Pantin urges that, to the extent possible, government expenditure be transferred into income generating areas, thereby, reducing ostentatious expenditures, of which he cites the Twin Towers, medical complexes and highways as examples.[273] It is also critical that T-T consider the issue of depletion, assess the literature on resource based industrialization, and place natural gas investment within this context.[274]

***Summary***

Given the constraints of energy-based industries in T-T and the decline in bauxite revenues and the fragility of tourism as well as its high import content in Jamaica, it appears essential that both countries diversify into other areas. In the interests of stable economic growth, it also seems vital that each country sustain conservative fiscal and monetary policies throughout the foreseeable future. While the

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[272] Pantin, pp. 69, 70 and 72.

[273] Pantin, pp. 50 and 52.

[274] Dennis Pantin, "The Political Economy of Natural Resource Rentier States: The Case of Oil and Natural Gas-Rich Trinidad and Tobago," in Caribbean Economic Development The First Generation, eds. Stanley Lalta and Marie Freckleton (Kingston: Ian Randle Publishers, 1993), p. 252.

socio-economic state of T-T has dramatically deteriorated in the last decade, the country's infrastructure, including mass transportation services, per capita income, and general living standards remain markedly higher than most countries in the Caribbean, including Jamaica.

The recent problems of T-T nonetheless certainly could have been palliated by better management during the rapid expanse of the economy and during the economic downturn in which savings were readily depleted. In a similar vein, previous administrations in Jamaica ought to have relied less on foreign loans and sought to apply other internal restructuring mechanisms. In this respect, the current administration in both countries, regardless of their historical electoral and political differences, could benefit from economic hindsight, learning from the costly errors made by earlier administrations.

Perhaps one lesson they could learn is that divestment is not a long term solution to debt servicing difficulties. Both countries, as will be extensively examined in the next chapter, sold shares in their telecommunications service providers. The shares were sold in each state for essentially analogous reasons, the governments required foreign exchange to service external debt obligations and build the international net reserves. This shortsighted approach to what are essentially long term, structural problems will not increase the productive capacity of either state and reduce its dependence on imports. The balance of trade deficit will thus be maintained and the future socio-economic development of each state jeopardized.

## IV. Divestment and Performance of the Telecommunications Sector

This chapter compares the various processes by which shares in the state owned telephone companies in Jamaica and Trinidad and Tobago were sold. It provides a description of the structure and operations of the telecommunications sector and examines the companies in light of their services and performance.

### *Introduction*

Privatization has become an increasingly utilized tool of adjustment in both T-T and Jamaica, particularly since the later half of the 1980s. It was in 1986 that the countries, as noted, witnessed notable electoral results. In T-T the NAR secured victory in national elections, the first party to defeat the PNM, and in Jamaica the JLP lost in local elections, an unusual fate for the party in power. These governing parties each negotiated arrangements with the IMF and due to the severe economic mire in which both countries had sunk, sought to divest state owned enterprises, in part, to reduce the financial burden on the treasury.

Privatization was employed in an effort to acquire foreign capital. The countries faced a limited choice between foreign equity investment and foreign debt. The acquisition of foreign exchange was not, however, generally declared as an objective or method of divestment. Rather, privatization was touted as a means to improve the management of state enterprises and, thereby, increase efficiency. It was also proposed

that a stock market offering directed to the small investor would redistribute wealth in the community through broad-based share ownership.

This people's capitalism, a process of democratization, was, to some extent, espoused by political parties in both countries. The NAR stated in their election manifesto that shares in state enterprises to be divested would be offered to workers and their affiliated Unions and to local capital.[275] The JLP, too, advocated opportunities for the widest possible share ownership which were to be facilitated through the stock exchange. The policies of both the NAR and JLP also emphasized deregulation. The ideological position of the parties conceptualized development in an economy in which the private sector was seen as the engine of growth. The appropriate role for the public sector was to provide the infra-structural framework to facilitate the efficient operation of the private sector.[276] This position was also assumed by the PNP, which, upon returning to power in 1989, intensified the privatization policies and market-oriented economic strategies. Indeed, the policy of divestment represents one of the core areas of continuity in policy making between the JLP and PNP in the 1980s and 1990s.[277] Broadening the base of ownership in the economy, however, was not retained as a priority in either Jamaica or T-T, as evident in the sale of shares in the state-owned telephone companies in the two countries.

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[275] National Alliance for Reconstruction, Manifesto of the National Alliance for Reconstruction 1986 (Trinidad and Tobago: The National Alliance for Reconstruction, 1986), p. 21.

[276] Mills, p. 387.

[277] Carl Stone, Putting Enterprise To Work. A Study of Privatization in Jamaica (Kingston: National Investment Bank of Jamaica, 1992), p. 2.

## The Process of Divestment and Shareholding Structure

Both Jamaica and T-T stipulated in a "Letter of Intent" to the IMF the divestment of the state-owned telephone company. To qualify for IMF assistance, a borrowing country must agree to implement policy measures set out in these letters. Although the privatization of state enterprises has been stipulated in lending conditionalities by various external agencies, individual companies or sectors are not specified. The decision concerning which firms to divest and the method of divestment rests with the government.

### *Telecommunications of Jamaica*

The telecommunications sector was originally chosen for divestment, in the case of Jamaica, for various reasons including, as mentioned earlier, the JLP's need for funds to expend on social services to gain favor in the forthcoming general elections. The JLP also regarded telecommunications as a key to encouraging foreign investment and creating a competitive exporting sector linked to the U.S. economy, and viewed privatization as a means to upgrade the system by accessing technology, finance, and foreign exchange. Indeed, limited domestic and foreign capital curtailed expansion of the telecommunications infrastructure for the government was restricted in its ability to guarantee funds for capital improvements. Both the Jamaica Telephone Company (JTC), the domestic telecommunications firm which offers local or basic telephony

service, and Jamaica International Telecommunications (JAMINTEL), the international carrier providing telex, telegram, and facsimile services, data access, and leased circuits, were incorporated into the government's budgeting under IMF credit ceilings for state owned enterprises. Hence they found their capital expenditure plans subject to vetoes based on quarterly macroeconomic targets rather than long-term firm-level planning.[278] The situation was particularly acute for JTC for restricted expansion of the infrastructure meant that its penetration rate was contained at a low level. It was thus recommended by Mayer Matalon, then Chairperson of JTC and Deputy-Chairperson of JAMINTEL, that a holding company for the two firms be created to facilitate privatization.

In early 1987, the Government of Jamaica proposed a merger of JTC and JAMINTEL with Cable and Wireless Limited (C&W). C&W was interested in partaking in the holding company as it held a 49 percent shareholding in JAMINTEL and its license was to expire in three years.[279] Matalon, an Ambassador at Large travelling under the same visa as a Prime Minister, handled these negotiations which were carried out in London in February 1987. It was agreed that a holding company, later named Telecommunications of Jamaica Limited (TOJ), be formed to assume the

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[278] Christopher Adam, William Cavendish, and Percy S. Mistry, Adjusting Privatization (Kingston: Ian Randle Publishers, 1992), p. 142.

[279] JAMINTEL was formed as a limited liability company in January 1971 with an ownership structure in which the Jamaican government held 51 percent of the issued capital and C&W 49 percent. It was originally created with the understanding that the government could use the profits to buy out C&W. The profits, however, were not employed by the government to purchase the shares and over time the value of the company increased to the point that the government could not afford the shares.

shareholdings of both JAMINTEL and JTC. C&W and the Jamaican government further agreed to procure an eventual merger or amalgamation of JTC and JAMINTEL, which was finally secured, as will be discussed later in this chapter, in 1995. It was also agreed that Matalon would serve as the Chairperson of TOJ which acquired controlling interest in JAMINTEL on 19 May 1987 and in JTC on 23 July 1987. Both JAMINTEL and JTC were wholly-owned subsidiaries of TOJ which became a public company on 1 July 1987.[280]

The holding company was based on agreed asset values with the following shareholding resulting:

| | |
|---|---|
| Cable and Wireless,<br>on account of shares in JAMINTEL | 09.397 % |
| Government of Jamaica,<br>on account of shares in JAMINTEL | 09.783 % |
| Government of Jamaica,<br>on account of shares in JTC | 71.041 % |
| Other shareholders | 09.779 % |

It was further agreed that C&W would be permitted to acquire some of the shares from the Jamaican government to enable the company to own 20 percent of the company.[281] C&W was allowed to increase their shareholding to 20 percent as the company could not otherwise reflect their investment in TOJ in their balance sheets due

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[280] Accountant General, Prospectus Telecommunications of Jamaica Limited 1988 Offer for Sale (Kingston, Jamaica: n.p., 1988), p. 6.

[281] Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, Ministry Paper No. 78 (Kingston: n.p., 1990), pp. 1-2.

to stipulations in their own corporate act.[282] While it has been contended that eighty percent of TOJ was to be owned by Jamaicans or Jamaican interests,[283] in October 1987 C&W acquired 19 percent of the issued share capital of TOJ, giving the firm a 39 percent interest in TOJ.[284] The JLP sold the shares to acquire funds for the international net reserves.

The next year, in September 1988, the JLP made a public offering of shares by placing 13 percent of the government's shares for sale on the Jamaica Stock Exchange. The amount of shares were limited so as not to flood the market.[285] The Accountant General offered 126,500,000 ordinary shares of $1.00 each to the public at $0.88 per share payable in full on application. Applications could only be made by Jamaican residents or bodies corporate, incorporated or registered in Jamaica which are subject to control either directly or through another body corporate by Jamaican citizens. Although there was no limit to the number of shares for which an applicant could apply, applications had to be made for multiples of 50 shares, subject to a minimum of 200, except in the case of the Employee Share Scheme.

Of the shares placed on the stock market, about two percent were reserved under an Employee Share Scheme.[286] The National Workers Union (NWU), which has

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[282] Carl Chantrielle, Personal Interview, 22 September 1993.

[283] "Move to merge JAMINTEL, JTC," The Daily Gleaner, 7 November 1989, n.p.

[284] Accountant General, p. 33.

[285] Richard Downer, Personal Interview, 14 September 1993.

[286] Accountant General, p. 19.

represented the staff union of JAMINTEL since its inception in 1971 and that of the JTC for the past few decades, negotiated the employee share scheme. According to Clive Dobson, President of the NWU, there was not enough capital to demand more than two percent of the shares.[287] Employee share offerings have been used in Mexico and other countries as a way to include workers in the economic participation of the new firm and to counter their opposition to the privatization. The Jamaican government also sought a broader based share ownership in TOJ at this time; and nearly 15,000 investors applied for the shares offered on the stock exchange, raising nearly $120 million in the process.[288] The JLP, as written in the Prospectus, did not, however, intend to reduce the government's shareholding below 40 percent.

Following the public sale of shares the shareholding profile of TOJ was as follows:

| Shareholder | % of issued shares |
|---|---|
| Government | 40 |
| C&W | 39 |
| Employees | 2 |
| Others | 19 |

In June 1989, the Jamaican government, now under Manley's leadership, sold an additional 20 percent of its shares to C&W, giving them the majority shareholding at 59 percent. Then, in November 1990, the government sold its remaining shares of TOJ, 20 percent, to C&W. The British corporation's shareholding, thus, stood, as it

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[287] Clive Dobson, Personal Interview, 30 September 1993.

[288] Neville Spike, "The capital market and privatisation," The Sunday Gleaner, 8 February 1992, p. 7B.

remains to date, at 79 percent.[289] While it would have been politically sensitive to make a public share offering, the PNP stated that it found it necessary to dispose of its remaining shares in order to secure foreign exchange to support the foreign exchange requirements of the Jamaican economy.

In order to have a standby agreement with the IMF reinstated, Manley agreed to meet various IMF targets, including the clearing of debt arrears to official and private creditors. It was in Manley's attempts to secure the requisite foreign exchange to meet IMF targets that the shares were sold to C&W. The additional TOJ sales were not part of a broader philosophy regarding the sector. Furthermore, the time table to meet the IMF targets was too tight to permit the process of public share offerings, thus, the sales are indicative of a crisis management approach to government.[290] The PNP expended political capital in their haste to obtain foreign exchange for Jamaicans would have purchased additional shares and with foreign exchange. At this time, the Jamaica Stock Exchange, too, took issue with a clause in the Prospectus, which it had not approved, that indicated the Government's intention to not further reduce its shareholding.[291]

C&W was, moreover, not particularly interested in purchasing the last 20 percent of the government's shares since the company was already the majority shareholder. Matalon, who holds close personal ties with both Manley and senior officers in C&W,

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[289] Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, p. 2.

[290] Robert Pickersgill, Personal Interview, 28 September 1993.

[291] Wain Iton, Letter to Christopher Edwards, Accountant General, 1990, Kingston, Jamaica.

persuaded C&W to purchase the additional shares.[292] Matalon arranged the sale to C&W with the understanding that the archaic 1893 Telephone Act would be rewritten to reflect new technological developments and the powers of the license would be widened. Manley wrote a personal letter promising these arrangements. Although C&W would have preferred to wait until the legislation was passed before actually buying the shares, the IMF targets were too near and the foreign exchange needed immediately by the Jamaican government, so the company agreed to comply.[293]

The price at which the remaining 20 percent of shares were sold yielded to the Government of Jamaica a price of J$1.76 per share. This price was considerably in excess of the market price which had existed on TOJ shares. Substantial amounts of the shares had then been available on the local stock exchange at prices varying between 85 and 95 Jamaican cents.[294] Since the government's sale of shares in November 1990, TOJ's share price has varied and to date has settled at J$3.27. The PNP sold each 20 percent block of shares to C&W for US$42 million, a price comparable to that paid by C&W for 49 percent of the telephony system in T-T.

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[292] Richard Downer, Personal interview, 14 September 1993.

[293] Trevor Patterson, Personal Interview, 17 September 1993.

[294] Telecommunications of Jamaica, Telecommunications of Jamaica Limited Sale of Shares, p. 3.

***Telecommunications Services of Trinidad and Tobago***

The process of divestment and the resultant shareholding structure in T-T differs from that of Jamaica in several notable respects, including the absence of a public share offering or employee share scheme. The reasons for the actual sale of shares are analogous, however, in that the government was in need of foreign exchange to service external debt obligations and build the international net reserves. The inclusion of a foreign partner in the telecommunications sector was not actually part of a broader reform strategy, though the situation may thus be post-rationalized. [295]

The structure of the telecommunications sector in T-T parallels that of Jamaica. TELCO, the Trinidad and Tobago Telecommunications Company, corresponds to JTC as TEXTEL, the Trinidad and Tobago External Telecommunications Company, corresponds to JAMINTEL. Also, as in JAMINTEL, C&W held 49 percent of TEXTEL and its license was soon to expire. This accounts, in part, for their ownership presence in Telecommunications Services of Trinidad and Tobago (TSTT), which was created soon after the divestment of TELCO with the merger of TELCO and TEXTEL.

Unlike Jamaica, however, the domestic carrier in T-T had undertaken a massive network expansion and development program which spanned 1981-1986. The expansion was based on general economic growth and accompanying growth in the customer rate base. TELCO's investment was geared toward a much higher level of economic activity in T-T. TELCO financed the entire costly program with loans, much

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[295] Karl Hudson-Philips, Personal Interview, 5 November 1993.

of it commercial loans, for the government had authorized the company to borrow money commercially in 1981.[296] The bulk of the financing for the development program was secured through the Bank of Commerce in Canada, the Export Development Corporation (EDC), also of Canada, the Export-Import or EXIM Bank of the U.S., and a Japanese consortium led by Sumitomo Bank.[297] TELCO procured a government guaranteed debt of several million U.S. dollars. Its debt stood at TT$981,125 million in 1986 when the exchange rate was TT$2.40 to US$1.00.[298] In 1986 its medium and long term borrowings represented more than 70 percent of total assets, and this figure excludes short term local financing.[299] Some of the external loans were also tied to equipment suppliers. In the case of Canada lending was linked to the Canadian firms Phillips Cable and Northern Telecom.[300] These arrangements have contributed to the growth of Northern Telecom as a leading supplier of telecommunications equipment in the Caribbean.

Although TELCO began to scale down its investment program with the downturn in the T-T economy and thus did not utilize all of the external loans, the

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[296] Selby Wilson, Personal Interview, 25 October 1993.

[297] Telecommunications Services of Trinidad & Tobago Limited, "Schedule of Loans as at May 31, 1991" (Port of Spain: TSTT, 1991), n.p.

[298] Pannell Kerr Forster Chartered Accountants, Trinidad and Tobago Telephone Company Limited Detailed Financial Statements for the Year Ended 31st December, 1986 (Port of Spain: Pannell Kerr Forster Chartered Accountants, 1987), p. 10.

[299] Trinidad and Tobago Telephone Company Limited, Information Memorandum (Port of Spain: TELCO, 1988), p. 20.

[300] Winston Millet, Personal Interview, 28 October 1993.

company still found itself unable to service its debt which was among the highest of the state enterprises. Unfortunately, while most of the infrastructure of TELCO's development program was laid by 1986, resulting in a marked improvement in cost-efficiency and quality of service, the company was in poor economic health. It faced high debt servicing costs at a time when the T-T economy suffered severe contraction and PNM Prime Minister George Chambers had issued a directive that state enterprises were to be self-financing. Further, currency devaluations had the effect of increasing the company's debt servicing obligations on foreign borrowings. Despite approved rate increases by the Public Utilities Commission in 1983 and 1985 of 100 percent and 20 percent respectively, the company was crippled by the devaluations.[301] The debt, which had to be paid in hard currency, grew unmanageable. The government of the NAR therefore sought a means to refinance TELCO.[302]

In September 1987, TELCO appointed Morgan Grenfell & Co. to serve as financial and technical advisors and assist in implementing a restructuring program which included the introduction of a private equity investor to subscribe to an issue of new shares, the rescheduling of the company's loans, and a merger with TEXTEL. Morgan Grenfell arranged for international advertising for a firm to subscribe to 49 percent of the total issued share capital. Following receipt of the Information Memorandum dated February 1988, several firms indicated interest in the shares.[303]

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[301] Winston Millet, Personal Interview, 28 October 1993.

[302] Frank Rampersad, Personal Interview, 19 October 1993.

[303] Trinidad and Tobago Telephone Company Limited, Status Report, 23rd March 1988 (Port of Spain: TELCO, 1988), n.p.

One attraction of TELCO for foreign investors was that the company received a large loss provision for tax purposes. Four companies, Atlantic Tele Network Inc. (ATN), British Telecom (BT), C&W, and Telefonica of Spain, submitted offers.[304] Of these, two were seriously considered, BT and C&W.

The government was extremely attracted to BT since the company develops technology. Also, unlike other companies, BT was willing to buy C&W's shares in TEXTEL which would be available for another company to purchase as its license was due to expire. The government deemed it advisable that the same foreign investor own shares in TELCO and TEXTEL in order to facilitate a merger. C&W, in response to the Information Memorandum, indicated in its letter, dated 16 February 1988, to Audley Walker, then Chair of TELCO, its interest and willingness to participate in the restructuring of the country's internal and external telecommunications service providers. In addition to their familiarity with the telecommunications sector, the corporate and government culture, and political players and process in T-T, C&W placed a higher bid than BT for the shares. C&W thus succeeded in marketing their services and secured the shares in TELCO.[305]

C&W purchased the 49 percent of TELCO's shares for US$85 million, the first payment of US$50 million was made in December 1989 and the balance paid in April 1990. At the then prevailing rate of exchange of TT$4.25 to US$1.00 the purchase

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[304] Trinidad and Tobago Telephone Company Limited, Selection of Potential Equity Investors (Port of Spain: TELCO, 1988), pp. 8-9.

[305] Frank Rampersad, Personal Interview, 19 October 1993.

price equalled approximately TT$360 million which was far less than TELCO's TT$900 million investment expenditure. Further, TELCO's loans were rescheduled in 1989. TSTT acquired TELCO's debt with the merger and was allowed to carry TELCO's losses in their books, deducting or applying the losses against earnings or profits. TSTT also did not have to pay corporate taxes until the fiscal year 1994-95 when the TT$900 million debt was liquidated.[306] It can thus be deemed that C&W did very well in terms of their purchase of TELCO. Further, in comparison with Jamaica for whom they paid a comparable price for the last 40 percent of shares in TOJ, C&W acquired a technically superior system in T-T. This may appear illogical until one considers the telecommunication shareholdings of C&W throughout the region and the consequential control which the company can thus exercise. An acquisition can not be assessed strictly on the basis of the individual firm, but must be viewed within the context of how this piece fits into a larger corporate puzzle.

***Regional Holdings of C&W***

The antecedents of C&W, the early telecommunications tentacles of the nineteenth century British imperial state, are a principal factor for the continued dominance of C&W in operating telecommunications systems in former British colonies. Cable and Wireless has consolidated its corporate strategy by focusing its efforts on areas where the company is already entrenched. According to Executive

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[306] Nigel Davis, Personal Interview, 21 October 1993.

Chairman, Lord Young, this approach has resulted in "the concept of three regional hubs in Asia, Western Europe and the Caribbean, creating clusters of businesses in order to exploit the benefits of regional mass."[307]

C&W presently owns shares of the telecommunications systems in 15 Caribbean countries, all former British colonies. C&W has acquired the image of a local company through hiring local staff and directors and by employing "national" names for the subsidiary companies. Indeed, the names of these "national" telecommunications companies, ie. Telecommunications of Jamaica, Telecommunications Services of Trinidad and Tobago, may well be considered misnomers. C&W refers to these companies as business units. It is also interesting to note how the corporate strategy of C&W adjusts to each specific environment, as the company advocates competition in the U.K. while staunchly defending its monopoly position in the Caribbean. C&W also owns, albeit often in conjunction with other firms, undersea fibre optic cable transmission networks in the region as well as satellite earth stations. C&W can route traffic in such a way as is most profitable to them, not the individual "national" companies. It thereby treats the national companies in the region as satellite companies, not as separate and distinct companies in their own right.

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[307] Cable and Wireless, Report and Accounts 1993 (London: Cable and Wireless plc, 1993), p. 3.

***Union Opposition***

It is perhaps these issues of national sovereignty and economic independence which are of greatest concern to the Communication Workers Union (CWU). The CWU, which represented both TELCO and TEXTEL staff, vehemently objected to the restructuring of TELCO's authorized share capital, the conversion of the company's debt into equity and to the subsequent purchase by C&W of 49 percent of the shares. The CWU was not involved in the negotiations nor party to the Shareholders Agreement. Further, unlike the NWU in Jamaica, the CWU did not attempt to secure an employee share offering which would be an affront to their position which was essentially anti-privatization.[308] The CWU was also particularly critical of the merger of the two telecommunications companies due to the involvement of C&W which they considered a recolonization of the industry, and representational of the country.[309]

The Union was not earlier opposed to a merger of TELCO and TEXTEL when it was proposed that C&W be removed from a shareownership position. In the early 1980s under the leadership of Neilson Mackay, former CEO of TELCO, an alternative had been proposed for restructuring the industry, in part, so as to avoid divestment and a foreign equity partner. It had been suggested that TELCO be awarded a special license to operate an international switch, specifically to North America, World Zone

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[308] Deoraj Ramnarine, Personal Interview, 20 October 1993.

[309] Lyle Townsend, "Government of Trinidad & Tobago TELCO 'Deal' The Untold Story" (Port of Spain: Communication Workers Union, 1990), p. 3.

1, thereby reducing the traffic of TEXTEL. In reducing TEXTEL's traffic and thus its earnings, the government could then afford to buy out C&W and merge the two companies. The revenue, most of which is earned through the external service, could then be used to subsidize internal service and finance infrastructure development. It should be noted that TELCO was awarded this license after C&W became a shareholder.

Another proposal suggested that the T-T government swap shares in another firm, such as a methanol plant in the energy sector, for C&W's shares in TEXTEL and then merge the telephony companies, again, without a foreign partner. Neither proposition was agreed upon and with the change in political parties in the 1986 elections came a change in management at TELCO. Although members of the Board of Directors are appointed for a three year term, the precedent has been that Board members remain in their positions for the entirety of a government's term of office, that is, five years, and often beyond that time frame when the same party retains power, as had traditionally been the case in T-T. The telecommunication service providers thus witnessed further changes with the return of the PNM to power in 1991 and with the merger of TELCO and TEXTEL into TSTT which was effective the 1st of January 1991.

***Merger/Organizational Restructuring***

The creation of TSTT demanded that all levels of management and staff of the domestic and international telephony companies be reorganized into a single unit. As part of its attempts to streamline its operations for improved efficiency, the telephony companies in both Jamaica and T-T made a number of revisions to their organizational structures, as can be noted in the organizational charts included in the appendices. In regard to TSTT, one of the most significant aspects of the organizational restructuring concerns the shift of responsibility for account collections to the Finance Division.[310]

With the creation of TSTT a single Union agreement was also required. In effecting the organization restructuring and Union agreement, a job evaluation process was conducted to regulate salaries and benefits for a disparity existed between former TELCO and TEXTEL employees, as was also the case of JTC and JAMINTEL. Although many of the same titles applied to staff in both companies, competency levels were in question, thus, criteria pertaining to titles of positions and accompanying duties were consolidated. Upon conclusion of the process in T-T, parity in salaries and benefits are to be backdated to the date of the merger. C&W, in purchasing the shares in both countries, had promised that there would be no retrenchment of staff. This strategy was employed to overcome opposition to the privatization.

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[310] Telecommunications Services of Trinidad and Tobago Limited, Corporate Business Plan 1991-1995 (Port of Spain: TSTT, 1991), p. 3.

Despite the onerous complications arising from the process of coalescing the firms, the merger did resolve some basic, longstanding problems in relations between TELCO and TEXTEL. These difficulties included the incompatibility of standards and convertors, with TELCO adhering to North American standards and TEXTEL to those of Europe, and infighting between the two companies, particularly in regard to the division or sharing of international revenue. TELCO argued that they ought to receive a larger share of the international revenue since they were responsible for capital investment in the domestic infrastructure from which TEXTEL inordinately benefitted. It was viewed by TELCO that the international revenue could be of benefit to the whole of the country as the funds could assist in financing network development. The sharing of revenue had likewise been a serious point of contention between JTC and JAMINTEL.

The two Jamaican companies have only recently, however, unlike TSTT, been legally merged into TOJ. The merger was effected the first of April 1995. Several operations of JTC and JAMINTEL, including management, accounting and finance, and procurement of supplies, had, though, been effectively merged after the creation of the holding company.[311] Attempts to rectify the differences in salaries and benefits between the employees of JTC and JAMINTEL, too, had been instigated in the late 1980s.[312] To achieve parity between the employees, JTC employees received gradual

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[311] Carl Chantrielle, Personal Interview, 22 September 1993.

[312] Trevor Minott, Personal Interview, 23 September 1993.

salary increases which ranged from 11 to 60 percent.[313] The NWU also began negotiating the unification of the Union agreements or contracts as the upward amalgamation or merger had been the express intention of both the Jamaican government and C&W. This is borne out by the third recital in the Shareholders' Agreement which stipulates that "(c) GOJ and C&W consider it to be in the long term mutual interests of Jamaica and C&W to procure an eventual merger of [JTC] and JAMINTEL. . . ."[314] Further evidence of the intent to merge can be found in the fact that the operating licenses, as will be examined in the next chapter, were all granted to TOJ.

Some, however, including the former General Manager of JAMINTEL, questioned the necessity of the merger. The consolidation was viewed in disadvantageous terms as it was claimed that the creation of such a large bureaucracy would pose additional problems, and thus, inefficiencies, particularly in the realm of international services.[315] While citing these detriments, critics were nonetheless cognizant of possible advantages to the merger. Theoretically, the coalescence of JTC and JAMINTEL into TOJ could resolve disputes concerning rates and the sharing of revenue and allow the company to benefit from economies of scale arising from shared operational costs, which could, thereby, impact favorably on operating expenses.

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[313] Clive Dobson, Personal Interview, 30 September 1993.

[314] Agreement between The Government of Jamaica and Cable and Wireless (West Indies) Limited for the formation and operation of a Holding Company to acquire shares in The Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited (n.p.: n.p., 1987), p. 1.

[315] Trevor Minott, Personal Interview, 23 September 1993.

Decreased expenses could, in turn, result in the lowest possible rates to customers. The merger could also facilitate coordination of infrastructure development. A larger asset base and hence an improved position for acquiring loans for expansion would be of further benefit. Human resources could also be better utilized. Efforts in such areas as accounting would no longer be duplicated, and competition between the companies for technicians, engineers, and other staff would be eliminated. The employees themselves could profit from greater opportunities for upward mobility within the company.[316] Despite the advantages and disadvantages to be gained with the merger, legal obstacles delayed its completion for several years in Jamaica.

The problems posed included the fact that both JTC and JAMINTEL had several loans and credit agreements with financial institutions, notably external lending agencies. The companies borrowed from abroad due to high local interest rates and the fact that the importation of equipment, which accounted for the vast majority of equipment, required payment in foreign exchange. An entire transfer of the companies' respective assets would, in virtually all circumstances, trigger a default unless the arrangements met with consent, which would entail risks and exorbitant legal fees. Further, the majority of external loans were government guaranteed, thus, a transfer would require new Parliamentary guarantees which, again, would result in additional costs on behalf of TOJ. The transfer of performance bonds from both foreign and local bonding companies, too, was at issue.

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[316] Trevor Minott, Personal Interview, 23 September 1993.

The most critical matter, however, concerned the transfer of employees from JTC and JAMINTEL to TOJ.[317] To effect the merger at the end of the 1991 fiscal year, 31 March 1991, as in accordance with the original plan, it was proposed that employees be simultaneously sent a letter of termination from their present position and a letter of offer for the same position at TOJ. Although there was no intention to create any redundancies, due to a clause in the Collective Labour Agreements, it was found that employees could challenge the company in court for severance or redundancy payments.[318] Such claims would be prohibitively costly to the company and the plans to merge JTC and JAMINTEL in this manner were abandoned.

The intricate and seemingly intractable problems, thus outlined, were finally resolved in Jamaica via a vesting statute, as was the case in T-T. The Vesting Order enabling TELCO's acquisition of TEXTEL was passed on the 24th of December 1990, thus TSTT, a registered private company in which the government owns 51 percent of the shares, was formed. In Jamaica legislation was proposed in November 1993 which would have, among other conditions, effected the merger of JTC and JAMINTEL. This legislation, which will be discussed in detail in the next chapter, did not, however, receive Parliamentary approval, though not because of the intent to merge the companies. In the following year, 1994, the legislation was separated into two bills,

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[317] Trevor Patterson, Memorandum to the Chairman, Telecommunications of Jamaica Limited, Re: proposed transfer of undertaking of JTC and JAMINTEL to TOJ, 17 April 1991, Kingston, Jamaica, pp. 1-3.

[318] Patterson, Memorandum to the Chairman, Telecommunications of Jamaica Limited, Re: proposed transfer of undertaking of JTC and JAMINTEL to TOJ, pp. 3-5.

one devoted to the merger and the other to other regulatory matters. The Act regarding the merger, Telecommunications of Jamaica (Transfer to and Vesting of Assets and Liabilities of Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited) Act, 1995, passed Parliament in 1995 and on the 8th of March, 1995 was proclaimed into law.

*Taxes Associated with the Merger*

In implementing the merger of the telephony companies in both Jamaica and T-T, several taxes were deemed applicable, for example, the transfer tax regarding the transfer of real estate from JTC and JAMINTEL to TOJ and the stamp duty then imposed upon this transfer. In T-T, TSTT paid all of the taxes accompanying the merger -- transfer tax, alien holding tax, withholding tax on dividends. This is unlike the case in Jamaica where TOJ secured a waiver of such taxes.

In 1990 Matalon began arguing on behalf of the firm that the cost of the taxes involved in the consolidation would be prohibitive to the point where the merger itself may be forsaken. Assessing the valuation of the various properties involved, too, he claimed, would be inordinately time consuming and result in unnecessary and frustrating delays. Matalon further cited the U.K., from which much of Jamaican law is drawn, as an example of where "intra-group" transfers are exempt from transfer

imposts and associated duties so as to facilitate a company's physical restructuring and thereby maximize efficiency.[319]

Matalon's arguments found favor with Seymour Mullings, then Minister of Finance, who, though authorized to remit stamp duties and transfer tax payable in connection with any transfer of real estate under Section 80 (B) of the Stamp Duty Act and Section 46 of the Transfer Tax Act, sought Cabinet approval on the matter. Mullings requested that the Cabinet

review the request for the remission as the sum involved was so great. Based on the book value of land as of 31 March 1990, the transfer tax and stamp duties would be approximately J$15 million. A transfer of land then attracted the imposts of (a) a transfer tax equivalent to 7.5 percent of the market value of the property, (b) a stamp duty of approximately 5.5 percent, and (c) registration fees equalled to 0.2 percent.[320] The Cabinet, in agreement with Mullings and Matalon, approved a waiver of transfer tax and stamp duties for TOJ on 9 July 1990. This waiver also met, though years later, with Parliamentary approval as it is found in the vesting order, the Telecommunications of Jamaica Act, 1995. As to whether the restructuring of the telephony companies, facilitated by the waiver in the case of Jamaica, has actually expedited efficiency is, however, difficult to determine.

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[319] Mayer M. Matalon, Letter to Miss Shirley Tyndall, Financial Secretary, Ministry of Finance and Planning, 12 March 1990, Kingston, Jamaica.

[320] Matalon, Letter to Miss Shirley Tyndall.

**Performance**

In respect to the performance of the telephony companies in Jamaica and T-T, one can not solely compare the volume of calls or number of working lines or some other such indicators before and after private participation in the sector. Although before and after criteria is to be incorporated in the analysis, strict reliance upon such data is insufficient to assess a policy. This is especially the case in regard to telephony service provision, for over any reasonable period of time one would expect to observe upward trends in measurements of the level of growth or penetration of such services. Thus, in evaluating a policy it may be more instructive to offer a feasible counterfactual. Although absolute certainty of an outcome in the absence of the implementation of a policy is not possible, one, nonetheless, must seek to compare situations with and without a specific policy, in this instance, the policy of incorporating private, particularly foreign, investment in the telecommunications sector.[321]

In regard to the case of Jamaica, it seems most likely that efforts to expand the telecommunications sector would continue to be constrained by the shortage of foreign and domestic capital. The high debt servicing requirements of the economy would persist in limiting network investment. Since the government could not afford to buy the 49 percent of shares held by C&W in JAMINTEL, or at least did not make any attempt to do so, it would thus appear that its license would have been renewed. In this

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[321] Nicolas van de Walle, "Review Essay: Adjustment Alternatives and Alternatives to Adjustment," African Studies Review, 37, No. 3, December 1994, p. 110.

light, it also seems probable that the contention concerning the division of international revenue between JTC and JAMINTEL would endure unabated.

In the case of T-T, it seems plausible that TELCO would have been compelled to reschedule its loans and taken additional steps, albeit painful, to adjust to the contraction of the economy. Although the alternatives which had been proposed to merge TELCO and TEXTEL had been rejected, it seems possible that eventually such a proposition would have been accepted. The merger would then have resolved the dispute regarding the sharing of international revenue. Had patience and budget tightening measures, as opposed to private foreign investment, been enlisted to adjust to the lower level of economic activity in the country, TELCO and the telecommunications sector as a whole could have weathered the gales of fiscal dearth.

Since, however, both Jamaica and T-T invited private foreign participation in the sector as a means to cope with economic adversity, it may be instructive to review a few statistics comparing criteria before and after privatization. The year 1990 is used as the year denoting privatization for it was in this year that C&W became the majority shareholder in TOJ and paid in full for its shares in TSTT.

**Pre- and Post-Privatization Telephony Statistics**

Table 1.1 **Jamaica***

| Item | 1980 | 1990 | CAGR | 1993 | CAGR |
|---|---|---|---|---|---|
| Main Lines | 54,141 | 100,106 | 0.06 | 197,059 | 0.25 |
| Residential | 33,835 | 38,832 | 0.01 | 118,235 | 0.44 |
| Business | 20,306 | 61,284 | 0.12 | 78,824 | 0.09 |

* Source: Jamaica Telephone Company
^ Compound Annual Growth Rate

Table 1.2 **Trinidad and Tobago***

| Item | 1980 | 1990 | CAGR | 1993 | CAGR |
|---|---|---|---|---|---|
| Main Lines~ | 43,452 | 161,128 | 0.14 | 180,256 | 0.04 |
| Residential | 29,615 | 141,229 | 0.13 | 155,377 | 0.03 |
| Business | 13,837 | 19,899 | 0.03 | 24,879 | 0.08 |

* Source: Telecommunications Services of Trinidad and Tobago
~ Excludes pay stations.

The above tables bear out the earlier assertion that C&W purchased a commendable system in acquiring TELCO, for during the 1980s the company extended the number of main lines and residential lines by a compound annual growth rate (CAGR) of 14 percent and 13 percent, respectively. Although Jamaica did increase business lines by 8 percent more than T-T, the country managed only a 6 percent CAGR for main lines and a mere 1 percent for residential lines. There are several other

indicators of the superiority of T-T's quality of local service as compared with that of Jamaica.

As of 1992, T-T reported satisfying 96.9 percent of total customer demand with an average waiting time of 1.4 years as compared with 55.9 percent satisfied demand in Jamaica where the wait time is 5.1 years. Also in 1992, Jamaica reported 84.0 faults per 100 main lines per year whereas T-T reported only 6.2. T-T further boast more than double the number of main lines per 100 inhabitants, 14.29 as compared with 6.81 in Jamaica.[322]

Although the network of T-T is generally better than that of Jamaica, efforts are being made to improve Jamaica's system. Since the complete divestment of the telecommunications sector, main lines have increased by a CAGR of 25 percent and residential lines by 44 percent, as compared with 4 percent and 3 percent, respectively, in T-T. These figures would indicate that privatization of the telecommunications sector in Jamaica accounts for spearheading the expansion of the network. Jamaica is currently investing more in the telecommunications sector than T-T, though this is arguably due to the fact that T-T undertook its ambitious investment in the early 1980s, prior to partial privatization. That being the case, then the participation of C&W can not be credited for significant improvements in the system.

In 1992, Jamaica invested $96.7 (M US$) in the telecommunications sector. The company added 35.7 (1'000) lines in 1991-92 at a price of 2,710 (US$) per main line.

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[322] International Telecommunication Union, World Telecommunication Development Report 1994, n.p.

This investment represented 57.1 percent of revenues. In contrast, TT added 6.1 (1'000) lines in 1991-92 at a cost of 4,536 (US$) per line. Its total investment of 27.9 (M US$) comprised 17.6 percent of revenue.[323]

Despite the investment differences, the teledensity rates of both Port of Spain and Kingston are equally proportionately skewed when compared with the rest of the country. The teledensity rates of each country's largest urban area are roughly three times that of the rest of the country. In Jamaica this urban bias is demonstrated in Kingston vaunting a teledensity of 14.43 while that of the rest of the country is 4.26. Withstanding the absolute higher numerical figures in T-T, the situation, although a bit better, is still on a proportional par with Jamaica, with a teledensity rate in Port of Spain of 34.21 and that of the rest of the country 12.91. The number of coin or card phones per 1'000 inhabitants are also roughly comparable for the two states with 0.67 in Jamaica and 0.70 in T-T.[324]

In Jamaica's favor is the fact that they employee 42 persons per main lines as compared with 63 in T-T. Jamaica also reported higher telecommunications revenue for 1992, 169.4 (M US$), as liken with 158.8 (M US$) in T-T. This revenue also accounts for a higher percentage of GDP in Jamaica than in T-T, 5.4 and 3.2, respectively. Installation costs for telephony service too is less in Jamaica. Residential installation costs in 1992 were US$5.6 in Jamaica as compared with US$16.5 in T-T.

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[323] International Telecommunication Union, World Telecommunication Development Report 1994, n.p.

[324] International Telecommunication Union, World Telecommunication Development Report 1994, n.p.

Additionally, business installation priced at US$8.0 in Jamaica was significantly less than the US$32.9 figure in T-T. Further, a forecast for the year 2000 predicts that Jamaica will narrow the gap with T-T in regard to the number of main lines per 100 inhabitants with 15.8 portended in Jamaica and 19.55 in T-T.[325]

The following table, that is table 2.1, indicates the profound increase in TELCO's operating revenue during the years 1981-86 in which the investment program was undertaken. TELCO experienced a CAGR of 53 percent during this period, as compared with 27 percent for JTC, displayed in table 3.1. During the late 1980s, both domestic service providers saw a decline in operating revenue. Whereas JTC observed only an 8 percent drop in the CAGR from 1986 to 1988, TELCO witnessed a far steeper plunge as the CAGR fell by 32 percent from 1986 to 1989. Likewise, the CAGR for TELCO's operating expenses decreased by 21 percent, from 17 percent for 1981-86 to a negative 4 percent in 1989. This is in contrast to JTC which retained a CAGR of 21 percent for a comparable period.

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[325] International Telecommunication Union, World Telecommunication Development Report 1994, n.p.

Table 2.1 **Financial Performance of TELCO***

| Item** | 1981 | 1982 | 1983 | 1984 | 1985~ | 1986 | CAGR 1981/86 |
|---|---|---|---|---|---|---|---|
| O.R.^ | 34.9 | 46.6 | 109.2 | 170.3 | 228.4 | 298.3 | 0.535 |
| O.E.^^ | 88.6 | 103.6 | 135.5 | 148.9 | 166.6 | 196.9 | 0.173 |

| Item | 1987 | 1988 | 1989 | CAGR 1986/89 |
|---|---|---|---|---|
| O.R. | 342.2 | 370.7 | 414.9 | 0.115 |
| O.E. | 185.7 | 189.9 | 170.7 | -0.047 |

* Figures TT $'000.
^ Operating Revenue.
^^ Operating Expenses.
** Source: Auditor General, Accounts of Trinidad and Tobago Telephone Company Limited for the year ended 31st December, 1984, for the years 1981-1984, and 1987, 1988, and 1989.
~ Source: Pannell Kerr Forster, Detailed Financial Statements for the year ended 31st December 1986, for the years 1985 and 1986.

Table 2.2 **Financial Performance of TELCO***

| Item | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|
| O.R. | 14.5 | 19.4 | 45.5 | 70.9 | 93.2 | 82.8 | 95.0 | 96.5 | 97.6 |
| O.E. | 36.9 | 43.1 | 56.4 | 62.0 | 68.0 | 54.7 | 51.6 | 49.4 | 40.2 |

* As Table 2.1 but with figures expressed in US$ based on the annual exchange rate.

Table 3.1 **Financial Performance of JTC***

| Item** | 1981 | 1982 | 1983 | 1984 | 1985 | 1986^ | CAGR 1981/86 |
|---|---|---|---|---|---|---|---|
| O.R. | 95.4 | 103.7 | 111.8 | 182.4 | 271.2 | 316.0 | 0.270 |
| O.E. | 40.7 | 47.9 | 52.9 | 70.3 | 88.2 | 108.5 | 0.216 |

| Item | 1987~ | 1988^^ | CAGR 1986/88 |
|---|---|---|---|
| O.R. | 387.6 | 450.7 | 0.194 |
| O.E. | 146.8 | 160.2 | 0.215 |

* Figures J $'000.
** Source: The Jamaica Telephone Company Limited, Annual Reports, 1981-1985, for years 1981-1985.
^ Source: The Jamaica Telephone Company Limited, 5-Year Performance Review, 1982-1986, May 18, 1987.
~ Source: The Jamaica Telephone Company Limited, Annual Report, Fifteen months ended March 31, 1987.
^^ Source: The Jamaica Telephone Company Limited, Financial Statements, March 31, 1988.

Table 3.2 **Financial Performance of JTC***

| Item | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|
| O.R. | 53.6 | 58.2 | 57.9 | 46.3 | 48.9 | 57.7 | 70.7 | 82.2 |
| O.E. | 22.9 | 26.9 | 27.4 | 17.8 | 15.9 | 19.8 | 26.7 | 29.2 |

* As Table 3.1 but with figures expressed in US$ based on the annual exchange rate.

The figures expressed in tables 2.1 and 3.1 have been converted to U.S. dollars in tables 2.2 and 3.2, respectively. Some of the subsequent numerical tables, too, reflect

both national currencies and U.S. dollars. The currency conversion is based on the annual exchange rate as cited in the 1994 edition of the *International Financial Statistics Yearbook* and in the June 1995 version of the same document, both published by the IMF. The figures employed are period averages of market exchange rates. The following table cites the exchange rates used in the computations.

Table 4.1 **Market Exchange Rates**

| Country | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|
| T-T | 2.4 | 2.4 | 2.4 | 2.45 | 3.6 | 3.6 | 3.84 | 3.84 |
| Jamaica | 1.78 | 1.78 | 1.93 | 3.94 | 5.55 | 5.47 | 5.48 | 5.48 |

| Country | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995* |
|---|---|---|---|---|---|---|---|
| T-T | 4.25 | 4.25 | 4.25 | 4.25 | 5.35 | 5.9 | 5.9 |
| Jamaica | 5.74 | 7.18 | 12.11 | 22.96 | 24.94 | 33.2 | 33.1 |

* As of February 1995.

Market exchange rates were utilized since purchasing power parity equivalents (PPP) were not available as PPP surveys are conducted on a periodic basis every three to five years and do not include all developing countries.[326] Market exchange rates may, and often do, vary measurably from their PPP equivalents. This deviation may be due to differences in the relative price of traded versus non-traded output. PPP-

[326] International Monetary Fund, World Economic Outlook (Washington, D.C.: International Monetary Fund, 1994), p. 119.

based weights embody a more realistic valuation of non-traded output and may thus serve as a more accurate measurement. Market rates may be distorted due to such assorted reasons as exchange market intervention and macroeconomic shocks.[327] Despite these limitations, market exchange rates are often employed for there is no single method of aggregating data to construct economic indicators across states that is suitable in all situations.

Tables 5.1 through 6.2 examine the performance of the external telecommunications service providers, with tables 5.2 and 6.2 employing market exchange rate conversions. During the 1980s, operating revenue for both TEXTEL and JAMINTEL grew by a CAGR of 32 percent and 25 percent, respectively. This stable growth, as compared with the domestic service providers, may account in part for the previous contention regarding the sharing of international revenue. The high growth rates are indicative of the wealth generated from this aspect of the sector which has traditionally borne limited responsibility for the costly investments in the extension of the domestic network.

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[327] International Monetary Fund, World Economic Outlook, pp. 117-118.

Table 5.1 **Financial Performance of TEXTEL***

| Item** | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| O.R. | 33.1 | 46.9 | 56.8 | 74.8 | 69.3 | 77.9^ |

| Item | 1987 | 1988 | 1989 | 1990 | CAGR 1981/90 |
|---|---|---|---|---|---|
| O.R. | 222.4 | 257.9 | 340.6 | 403.4 | 0.32 |

* Figures TT $'000

** Source: Trinidad and Tobago External Telecommunications Company Limited, Report and Accounts, 1981-1990.

^ A gross discrepancy exists between the operating revenues indicated in the 1986 and the 1987 Reports and Accounts. The 1986 report indicates 77.9 while the 1987 report states 184.3. There is no accounting for this difference.

Table 5.2 **Financial Performance of TEXTEL***

| Item | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| O.R. | 13.8 | 19.5 | 23.7 | 31.2 | 28.3 | 21.6 |

| Item | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|
| O.R. | 61.7 | 67.2 | 80.1 | 94.9 |

* As Table 5.1 but with figures expressed in US$ based on the annual exchange rate.

Table 6.1 **Financial Performance of JAMINTEL***

| Item** | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| O.R. | 30.3 | 39.2 | 48.8 | 71.3 | 76.1 | 114.4 |

| Item | 1987 | 1988 | 1989 | 1990 | CAGR 1981/90 |
|---|---|---|---|---|---|
| O.R. | 137.9 | 178.1 | 192.4 | 229.6 | 0.252 |

* Figures J $'000.
** Source: Jamaica International Telecommunications Limited, Annual Reports, 1981-1987, and Auditors' Report and Financial Statements, 1988-1991.

Table 6.2 **Financial Performance of JAMINTEL***

| Item | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|
| O.R. | 17.0 | 22.0 | 25.3 | 18.1 | 13.7 | 20.9 |

| Item | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|
| O.R. | 25.1 | 32.5 | 33.5 | 31.9 |

* As Table 6.1 but with figures expressed in US$ based on the annual exchange rate.

Tables 7.1 and 7.2, below, display overseas telephone traffic forwarded from the two islands. In both cases, the number of international calls and the number of the minutes of the calls increased prior to 1990. The international calls forwarded from T-T grew by a CAGR of 29 percent while those of Jamaica increased by 15 percent. After privatization, the number of international calls from the islands decreased, plummeting to a negative 7 percent in each instance. T-T also witnessed a decrease in

the minutes of the calls, though Jamaica recorded a 4 percent increase. The reduction in the number of international calls placed from the islands is due in large part to efforts to curtail fraudulent telephone traffic.

Table 7.1 **International Telephone Traffic from Trinidad and Tobago***

| Item** | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 |
|---|---|---|---|---|---|
| Calls | 492.4 | 922.1 | 1.518.3 | 2.139.4 | 2.253.8 |
| Minutes | 4.192.5 | 7.243.5 | 12.346.0 | 17.322.9 | 16.913.4 |

| Item | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1989/90 |
|---|---|---|---|---|---|
| Calls | 2.793.5 | 3.024.3 | 3.570.0 | 4.274.3 | 4.749.8 |
| Minutes | 20.547.0 | 21.977.6 | 24.706.8 | 29.197.4 | 30.944.7 |

| Item | CAGR 1981/90 | 1990/91 | 1991/92 | 1992/93 | CAGR 1990/93 |
|---|---|---|---|---|---|
| Calls | 0.286 | n.a. | 5.421.7 | 5.954.9 | 0.077 |
| Minutes | 0.248 | 34.7 | 36.426.8 | 37.205.8 | 0.062 |

* Overseas telephone traffic forwarded from Trinidad and Tobago.
** Source: Trinidad and Tobago External Telecommunications Company Limited, Report and Accounts, 1981-1990.

Table 7.2 **International Telephone Traffic from Jamaica***

| Item** | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 |
|---|---|---|---|---|---|
| Calls~ | 2.260.5 | 2.446.0 | 3.096.0 | 3.667.0 | 4.309.0 |
| Minutes~~ | 18.530 | 22.800 | 25.200 | 28.700 | 28.700 |

| Item | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1989/90 |
|---|---|---|---|---|---|
| Calls | 5.559.0 | 6.132.0 | 7.312.0 | 7.600.0 | 8.290.0 |
| Minutes | 36.800 | 43.600 | 48.300 | 48.800 | 42.500 |

| Item | CAGR 1981/90 | 1990/91 | 1991/92 | 1992/93 | CAGR 1990/93 |
|---|---|---|---|---|---|
| Calls | 0.155 | 9.132.1 | 7.078.4 | n.a. | -0.075 |
| Minutes | 0.096 | 42.300 | 47.100 | 63.980^ | 0.144 |

* Overseas telephone traffic forwarded from Jamaica.
** Source: Economic and Social Survey Jamaica, 1980-1993; Statistical Abstract, 1980-1994; and Statistical Yearbook of Jamaica, 1980-1992.
~ A large percentage of international calls are directly dialled, but these figures refer to operator-handled calls. Units are '000.
~~ Minutes refers to million paid minutes.
^ Estimated

In terms of the performance of the merged firms, TSTT and TOJ, which were both created after divestment, it appears that in the area of operating revenue, TOJ, with a CAGR of 69 percent, is witnessing a CAGR of 41 percent more than TSTT. Further, the operating expenses of TSTT is outpacing the CAGR of revenue by a margin of 32 percent to 28 percent. In the case of TOJ, operating expenses are increasing at a lesser

rate than revenue. TOJ thus appears to be a healthier firm with greater potential for growth. The continuation of present trends could allow TOJ to surpass TSTT.

Table 8.1 **Financial Performance of TSTT***

| Item** | 1990^ | 1991^^ | 1992~ | CAGR 1990/92 |
|---|---|---|---|---|
| O.R. | 519.0 | 505.1 | 847.7 | 0.28 |
| O.E. | 198.5 | 190.2 | 344.7 | 0.32 |

* Figures TT $'000
** Source: Telecommunications Services of Trinidad and Tobago Limited, Detailed Financial Statements for the Period Ended 30th September 1991 by Ernest & Young.
^ 1990 - 31st December 1990. 12 Months.
^^ 1991 - 30th September 1991. 9 Months.
~ Source: Telecommunications Services of Trinidad and Tobago Limited, Report and Accounts, for the Fifteen Months Ended 31st March 1992.

Table 8.2 **Financial Performance of TSTT***

| Item | 1990 | 1991 | 1992 |
|---|---|---|---|
| O.R. | 122.1 | 118.8 | 199.4 |
| O.E. | 46.7 | 44.7 | 81.1 |

* As Table 8.1 but with figures expressed in US$ based on the annual exchange rate.

Table 9.1 **Financial Performance of TOJ***

| Item** | 1990 | 1991 | 1992 | 1993 | CAGR 1990/93 |
|---|---|---|---|---|---|
| O.R. | 794.6 | 1.223.3 | 2.521.5 | 3.890.2 | 0.69 |
| O.E. | 331.3 | 509.2 | 1.015.1 | 1.371.6 | 0.60 |

* Figures J $'000
** Source: Telecommunications of Jamaica Limited, Annual Reports, 1989-1993.

Table 9.2 **Financial Performance of TOJ***

| Item | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|
| O.R. | 110.6 | 101.0 | 109.8 | 156.0 |
| O.E. | 46.1 | 42.0 | 44.2 | 55.0 |

* As Table 9.1 but with figures expressed in US$ based on the annual exchange rate.

***Summary***

On the basis of this limited data, it would appear that the complete privatization of the telecommunications sector in Jamaica is yielding favorably results in terms of the investment and expansion of the network and the general financial health of the firm. In T-T, the partial divestment would appear to be having no ill affects, certainly, but its auspicious effects are less striking. This may be attributable to the earlier investment in the network when the firm was a public telecommunications monopoly.

Unfortunately, the associated costs of that development program were not financially sustainable by the government in the short-run. The high debt or loss burden which the company bore on its books until the 1994-95 fiscal year when the debt was liquidated may account for its investment reticence. The actual proportion of shares held by C&W in TSTT is significantly less than in TOJ and this too may bear upon its commitment to investment. It is difficult to determine, however, whether these effects of private foreign investment are temporary, particularly in Jamaica where the notable network investment may make the privatization more politically palatable, or indicative of long term prospects for growth and expansion of the sector.

What is clearly evident in both Jamaica and T-T is the apparent ease of divesting the telecommunications sector. C&W was a ready investor in both cases with experience not only in operating telecommunications networks, but extensive experience in the Caribbean. Although it seems likely that the government of T-T will make a public offering of TSTT shares at some point in time, this would not remove the presence of C&W. It thus appears that, regardless of performance, C&W will continue to be the primary telecommunications service provider in Jamaica and T-T and the region as a whole.

# V. TELECOMMUNICATIONS REGULATION

The terms by which a regulatory authority may perform its duties can be specified by statute and orders made under statutory authority or by license. The telecommunications sector in both Jamaica and Trinidad and Tobago has historically incorporated licenses in the regulatory process. Arguably, the more detailed the license terms, the less there is a need for an additional mechanism of sector specific statutes. Although reliance on statutes tends to be inflexible where legislative procedures are slow, an administrative regulatory approach may suffer from inconsistent discretionary action.[328] This chapter will consider the merits of a licensing approach, the terms of differing licenses and aspects of the shareholding agreements. It will also examine various legislative acts and amendments pertaining to the telecommunications sector which are in existence or have been proposed or passed in recent years in Jamaica and Trinidad and Tobago.

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[328] International Telecommunications Union Centre for Telecommunications Development, "Restructuring of Telecommunications in Developing Countries" (Geneva: ITU, April 1991), presented at the Seminar on Implementing Reforms in the Telecommunications Sector: Lessons from Recent Experience, Organized by the World Bank, the International Telecommunications Union, the Commonwealth Telecommunications Organization, and the Centre for Telecommunications Development, Washington, D.C., 23-26 April 1991, pp. 24-25.

**Telecommunications Regulation in Jamaica**

Skepticism has been voiced concerning the benefits of Jamaica's current regulatory framework which is characterized by a license, albeit it one that substantially limits the discretion of the government and the pricing ability of the company. Spiller and Sampson, however, suggest that a licensing practices boasts many merits in the context of the Jamaican political system. Given the nature of the country's political practices, they contend that "a legislation-based regulatory mechanism constitutes an implicit contract that is too flexible and incomplete to provide the required safeguards for investment and growth."[329]

The authors cite three reasons for the inadequacy of legislation-based regulatory contracts in Jamaica. First, they state that Jamaican politics, with its fervent two party rivalry, implies that the pricing of domestic telecommunications is a politically charged issue. Second, the Jamaican political structure is such that the party in government has the ability to unilaterally change the law through either administrative or parliamentary decisions since Parliament is dominated by the party in power.[330] Thus, thirdly, judicial restraint of administrative decisions through statutory, as opposed to constitutional, interpretation, may not be very effective as the government could reverse the Court's interpretation through appropriate legislation.

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[329] Pablo T. Spiller and Cezley I. Sampson, Regulation, Institution and Commitment: The Jamaican Telecommunications Sector, World Bank Report, 23 March 1993, pp. 1-2.

[330] Spiller and Sampson, p. 2.

The judiciary has a limited ability to uphold original legislation against the commands of another administration, however, it can and does uphold contracts. Jamaica's legal tradition is rooted in common law with its respect for property rights and the enforcement of contracts. While the government can change the law, it can not unilaterally alter the terms of a contract or an operating license which is a type of contract. Although not the only way of restraining administrative discretion, regulatory mechanisms based on specific long term contracts between the government and the company are, arguably, a suitable alternative.

However, since long term contracts can not be designed to be fully contingent, they will contain ex-ante rigidities and inefficiencies, with one of these rigidities being the fact that, differing from most legislation, contracts tend to have specific finite terms.[331] Periodic "end-games" thus inevitably develop in which both the company and the government take actions so as to improve their bargaining positions in the license renewal or granting process, and in the case of the company, to protect its assets. Politics, including the forte of the company to wield influence over the political process, as well as the nature of the concluding contract are principal determinants of the renegotiating process and associated costs.

Under colonial rule, that is, from 1880 to August of 1962 when independence was granted, Jamaica's regulatory policy was based on the specific provisions of the separate licenses under which the various companies offering domestic and international

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[331] Spiller and Sampson, p. 2.

service operated.[332] In other words, contract law formed the basis of the colonial regulatory institutions as opposed to public utility legislation. With independence in 1962, new licenses were granted to the domestic and international operating companies, and Jamaica's regulatory framework and policy developed differently for the two distinct segments, that is, until the later half of the 1980s.

***Telecommunications Licenses, 1988***

In 1987, the Government of Jamaica and Cable and Wireless agreed on the creation of Telecommunications of Jamaica (TOJ) as the holding company for both JTC and JAMINTEL. TOJ was made the licensee for both wholly owned JTC and JAMINTEL. In 1988, TOJ was awarded one license under the 1893 Telephone Act and four ancillary licenses running concurrently with the main license under the Radio and Telegraph Control Act. Under the 1893 Telephone Act a license is required for establishing a public telephone network in Jamaica. The All Island Telephone Licence, 1988, granted under the 1893 Act, thus authorizes TOJ to establish and maintain an efficient and modern integrated all-island system of telephonic communications and overseas telephonic communications. Through the Radio and Telegraphy Control Act, TOJ was granted the Wireless Telephony Special Licence, the Telegraphic Services Special Licence, the Telex and Teleprinter Services Special Licence and the External Telecommunications Services Special Licence to establish, maintain, and use radio and

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[332] Spiller and Sampson, p. 10.

telegraph stations or apparatus for the purposes of operating wireless telephone services, telex, teleprinter private wire service and teleprinter broadcast service, and telegraphic services throughout the island of Jamaica as well as telecommunication services between Jamaica and points outside Jamaica, passing through Jamaica and with ships at sea.

The following list summarizes the main components of the 1988 licenses:

(a) JTC is granted a monopoly over domestic (both local and toll) telephone services, while JAMINTEL is granted a monopoly over international communications;

(b) The licenses for both JTC and JAMINTEL are for 25 years, with a renewal period of 25 years unless two and one-half years prior to expiration of the initial term the Minister notifies TOJ that the Government intends to acquire the domestic and external telecommunication service providers at the fair market value of the assets;

(c) Both companies are regulated on a rate of return basis and are entitled to charge rates which will yield a net after-tax return of not less than 17.5 percent nor more than 20 percent per annum on consolidated shareholders' equity, where assets are revalued annually and earnings are computed after deducting depreciation on the replacement cost of plant in service;

(d) If the company wants to adjust its tariffs, it must apply to the Minister of Public Utilities who may approve the proposed tariff which then goes into effect or if the Minister does not accept, and the Minister's offer is not accepted by TOJ, then the matter is handled through an arbitration procedure with an arbitrator determining the appropriate rates which conform with the terms of the licenses;

(e) Although TOJ is not required to obtain permission to perform investments, and the government can not disallow investments undertaken by the Company; the Minister is authorized, inter alia, to monitor the standard of service supplied by the licensee and, after consultation and agreement with the licensee to establish development programs;

(f) If the Minister determines that the licensee has failed to comply with the license and thus revokes the license of one of the two companies, it has to cancel the other as well;

(g) If the Government does not serve a notice within six months of the revocation of its intention to acquire the firms and the licensee is unable to secure a buyer of its telephone undertaking within the allotted two-year period, the Government is required to buy the assets of the companies at fair market value; and

(h) TOJ may appeal to Jamaica's Supreme Court for government violation of the license.

There are several criticisms to be made of the 1988 licensing agreements. The pricing scheme stipulated in the license, that is, a rate of return on equity, does not compel efficiency especially when the company can request tariff increases whenever it believes its rate of return is not on the target zone. Although the proposed rate increase must be approved by the Minister responsible for the telecommunications sector, this application process can easily become a mere formality. Placing such discretionary powers in an individual minister as opposed to a regulatory body can more readily engender corruption. And an economic environment in which currency devaluations are frequent, as in Jamaica, could further facilitate the routinization of this process. The pricing scheme substantially restricts the ability of the Jamaican government to limit price increases and does not provide incentives to reduce costs. Price-cap systems, which operate as automatic adjustments to prices over a base-price fixed ahead of time, could have been introduced to the license to assist in ensuring more efficient investments.

Another limitation of the licensing arrangement is that it may well deter the introduction of new products and technologies. The license is silent in addressing, for example, cellular service. The license does not in any sense promote a more competitive environment, even in the more dynamic segments of the sector, such as

value added services and long distance communications. At the present time when new products are developing rapidly and technological and industrial convergence is prevalent, granting TOJ a monopoly over both domestic and international telecommunications for an excessive period of time, 25 years, and renewal, as noted, for another 25 years, certainly appears to be an opportunity lost.

Technically speaking, however, TOJ holds a basic and legitimate monopoly for wired domestic and international telephony service only. The definition of the term "telephone" in the 1893 Telephone Act, under which the telephony license is granted, refers to voice transmission by electrical or magnetic energy over a pair of wires. The Act refers to the earliest form of wire telephony, copper wires, and does not include transmission by satellite, optical fibre or cellular technologies. Although TOJ does employ these technologies, the company does not possess a license enabling it to provide digital data transmission, cellular services or other value-added network services and certainly not on a monopoly basis. Indeed, as noted in the previous chapter, this is why the final sale of shares to C&W was arranged with the understanding that the 1893 Telephone Act would be rewritten to reflect new technological developments and the powers of the license would be widened.

Withstanding the passage of such legislation, TOJ contends that the license is for telephony service and not the technology. TOJ also states that it is a term of the shareholders' agreement that the Government would, no later than October 1, 1987,

introduce appropriate legislation to encompass the new technological changes.[333] Section 19 of the shareholders agreement pertaining to licenses and new or amended legislation is not, however, specific to technology. It states, as follows:

> (1) (a) GOJ undertakes that it shall amend and/or introduce any requisite enabling legislation and grant new operating licences for a period of not less than twenty five (25) years to the Company no later than the 1st day of October 1987 with provisions enabling assignment of or delegations under such licences to either Jatelco [JTC] or Jamintel or both for such period as the Company determines to be necessary.
>
> (b) GOJ and C & W agree that upon the granting of the licences referred to above the current licenses of Jamintel and Jatelco will forthwith terminate.
>
> (2) Rates for services shall be determined in accordance with the principles set out in Exhibit "C" hereto and the terms and conditions of the operating licences to be issued by GOJ shall include such principles and where required to effect these principles GOJ shall amend and/or introduce the appropriate legislation.
>
> (3) The licences granted by GOJ under sub-clause (1)(a) above and the enabling legislation as amended an/or introduced shall require the establishment of programmes and criteria for improvement in the standards of performance of services provided by Jamintel and Jatelco and the updating of such standards from time to time and the development of mechanisms for monitoring and ensuring such performance.[334]

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[333] Telecommunications of Jamaica Limited, On the Record ... in the Public Interest (n.p.: n.p., November 1993), n.p.

[334] Agreement between The Government of Jamaica and Cable and Wireless (West Indies) Limited for the formation and operation of a Holding Company to acquire shares in The Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited. n.p.: n.p., 1987, pp. 11 and 12.

***The Telecommunications Act, 1993***

The Government of Jamaica was not readily forthcoming in initiating new legislation, thus, in May 1991, TOJ's attorney, Trevor Patterson, prepared a Memorandum re Draft Bill Amendments to the Telephone Act and the Radio and Telegraph Control Act, and a Bill entitled an Act to Amend the Telephone Act and a Bill entitled an Act to Amend the Radio and Telegraph Control Act. The draft Act was circulated and revised several times. A further version of the Act and a draft license linked to it was prepared by Patterson and submitted to the Parliamentary Counsel in early 1993, alas, the Telecommunications Act, 1993. According to Patterson, C&W reviewed fax copies of the Act throughout the drafting process and assisted in drafting the definition of a switch. The company was aware at all times of the language of the Bill and its progress through legislative proceedings.[335]

One aspect of the proposed Telecommunication Act, 1993 addressed vesting provisions to allow JTC and JAMINTEL to be merged into TOJ to overcome the various problems associated with the merger, ie. loans, credit, redundancy payments, as discussed in the previous chapter. In addition to the statutory amalgamation of the telephone companies, the proposed Bill sought to repeal the 1893 Telephone Act and The All Island Telephone Licence, 1988 granted under the 1893 Act, and create a new licensing regime to cover all forms of telecommunication. It was this latter aspect of

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[335] Trevor Patterson, Personal Interview, 17 September 1993.

The Telecommunication Act, The All Island Telecommunication Licence, 1993, that generated public controversy and hindered the passage of the Act.

*The All Island Telecommunication Licence, 1993*

In the proposed license, the same terms as found in the 1988 license apply with the essential difference being that the word telephone, as it appears in the 1893 Telephone Act and The All Island Telephone Licence, 1988, is replaced by the term telecommunication. Broad ramifications thus ensue for the draft Telecommunication Act, 1993 adopts a broad definition of the term telecommunication based on the United Kingdom's Telecommunications Act. In defining a telecommunication system, the draft Act states that

> 3. - (1) For the purpose of this Act "telecommunication system" means a system for the conveyance through the agency of electric, magnetic, electromagnetic, electrochemical, electromechanical or other appropriate energy, of -
> (a) speech and other sounds;
> (b) visual images;
> (c) signals serving for the impartation (whether as between persons and persons, things and things or persons and things) of any matter otherwise than in the form of sounds or visual images; or
> (d) signals serving for the actuation or control of machinery or apparatus.[336]

Further, the proposed license failed to address the issue of interconnectivity and sought to grant the right of "first refusal" to TOJ with regard to the provision of services other

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[336] The Telecommunications Act, 1993, Draft (Kingston: n.p., 1993), p. 2.

than its basic telephone service. It also sought to grant TOJ the right to provide on an exclusive basis

> (1) All forms of voice telephony service regardless of the transmission media including, without limitation, cellular radio, mobile radio telephone, videophone and voice telephony associated with cable systems.
>
> (2) All forms of data transmission services regardless of the transmission media including, without limitation, telex, facsimile, electronic mail and packet switching and data transmission associated with cable systems.
>
> (3) Any other form of telecommunication services which are Switched Services as defined herein.[337]
>
> "Switched Service" means a telecommunication service which is provided by or through a switch, trunking device or other device which performs a similar function or which is provided by a network which comprises a switch, trunking device or other similar device or whereby a person or apparatus sending a message over a telecommunication system is able to select the point on that system or on any other system to which such message should be conveyed.[338]

Exempt services included radio and television broadcasting and cable television - electronic media which were never contemplated under the telephone license and areas in which C&W does not traditionally operate. In essence, the proposed license granted TOJ an exclusive monopoly regarding the provision of a whole host of services. Although this proposed legislation was approved by Robert Pickersgill, the Minister responsible for public utilities, it did not meet with Parliamentary ratification. Patterson who, as noted, had replaced the ailing Manley, was a younger man with no clear

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[337] The Telecommunications Act. The All Island Telecommunication License, 1993. Draft. Kingston: n.p., 1993, p. 29.

[338] The Telecommunications Act. The All Island Telecommunication License, 1993, p. 3.

connections to Mayer Matalon. Unlike Manley, Patterson could afford the political capital to reject the legislation which the company attorney had drafted.

*Matalon's Influence*

Matalon's influence in regard to TOJ is evident throughout the entire divestment and regulatory process. It was upon his recommendation, as noted in the preceding chapter, that a holding company for JTC and JAMINTEL was initially created to facilitate privatization. Matalon, who, sources reveal, held close personal ties with Manley and senior officers in C&W, was responsible for handling the negotiations. Matalon arranged the sale to C&W with the understanding that the archaic 1893 Telephone Act would be rewritten to reflect new technological developments and the powers of the license would be widened. Matalon's influence is thus evident in the terms proposed in the 1993 Licence and in the fact that this legislation was drafted by the TOJ attorney with approval of C&W. For the very company or industry which the government is to regulate to draft the regulatory legislation utterly undermines the democratic process. Matalon's influence further extends to nepotism in the appointment of his son to the TOJ Board of Directors. Also, the first area to be operationally merged was procurement and supplies which has numerous linkages with Matalon's various other enterprises. These forms of corruption or conflicts of interests are evidence of the tyranny of the elite.

***Separation of Bills***

Since the proposed 1993 Telecommunications Act and Licence did not receive Parliamentary approval, in the following year, 1994, the legislation was separated into two bills, one devoted to the merger of JTC and JAMINTEL into TOJ and the other to licensing concerns. The Act regarding the merger, Telecommunications of Jamaica (Transfer to and Vesting of Assets and Liabilities of Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited) Act, 1995, passed Parliament in 1995 and on the 8th of March, 1995 was proclaimed into law. The firms were officially merged on the 1st of April 1995. To date, however, Parliament has not passed a Telecommunication Act to replace The Telephone Act and no new telecommunication license has been set forth. It would appear that a new policy governing the sector is required before the passage of any new licensing mechanism. Although the Jamaican government can not change the terms of the 1988 licensing agreement for wired telephone service, it can, and hopefully will, alter arrangements regarding other forms of technology. Although competition is presently limited to the market for customer premises equipment, and that has been but a recent occurrence, the Jamaican government can create conditions which would promote the development of new service industries and generate competition in the provision of specific services. To some extent, however, it has missed such an opportunity in regard to the Jamaica Digiport International Limited (JDI).

***Jamaica Digiport International (JDI)***

JDI, which was designed to promote information services in Jamaica, operates in a monopoly environment, thus limiting the telecommunication options available to firms operating in the free trade zones in Kingston and Montego Bay. Located in the free trade zone at Montego Bay, JDI provides specialized international telecommunication services to clients who are located in a Free Zone established under the Jamaica Export Free Zones Act who engage in data entry, information processing, reservations, credit card verification and telemarketing operations or any other type of business which is approved by the Minister responsible for public utilities as noted under the Radio and Telegraph Control Act.[339] JDI is also able to offer its services and/or telecommunications equipment to TOJ for use in the provision of Jamaican and international telecommunications services.[340] It accommodates TOJ by providing a circuit for Bermuda and servicing Freeport, a relatively new area of development near Montego Bay.[341]

The Digiport consists of a large earth station with a 15 meter 125 Watt, C-Band antenna; an AT&T 5ESS switch, which is compatible with the standards for Integrated Service Digital Network; a building for data operations; an uninterrupted power supply

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[339] Telecommunications of Jamaica Limited, American Telephone and Telegraph, and Cable and Wireless, Shareholders Agreement (n.p.: n.p., 19 February 1988), p. 1.

[340] Telecommunications of Jamaica Limited, American Telephone and Telegraph, and Cable and Wireless, Shareholders Agreement, pp. 2-3.

[341] Christine Goy, Personal Interview, 29 September 1993.

and emergency power generating equipment; and the use of an INTELSAT satellite with digital capacity.[342] JDI transmits high speed data, voice and video, as well as private line service, between Jamaica and the United States, Canada, and England. JDI supports a variety of information processing services provided by Jamaican Service Bureaus. These services include data processing, data entry, data conversion, image processing, coding, indexing, coupon fulfillment, software programming/development, geographic information services, automated mapping, electronic publishing, text editing, litigation support, and medical transcription.

The Digiport was designed to encourage foreign corporations, particularly those in North America, to move some of their operations, such as data entry, offshore. In Jamaica the cost of labor for data entry is between one-third and one-quarter of that in the U.S. Companies using the information processing firms in the Free Zone generally pay between US$1.25 and US$1.50 plus some benefits with a maximum of US$2.00 an hour paid for data processing services.[343] Corporations can thus readily utilize JDI and reap profits from low-cost labor while providing needed employment to Jamaicans.[344] The inequality of this transnationalized division of production and labor is evident, and perhaps magnified when one considers that the primary shareholders in JDI are foreign firms.

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[342] Jamaica Digiport International, Ltd, The Jamaica Advantage: An Economic Alternative (n.p.: JDI, n.d), n.p.

[343] Christine Goy, Personal Interview, 29 September 1993.

[344] "Digiport accord," The Daily Gleaner, 20 February 1988, p. 3.

The shareholding structure of JDI, a joint venture which opened in July 1988, consists of TOJ with 30 percent of the shares, American Telephone and Telegraph (AT&T) with 35 percent, and C&W with 35 percent. Since C&W presently owns 79 percent of TOJ, it is the primary shareholder in JDI as well. Matalon, Chair of the TOJ Board of Directors, also serves on the Board of JDI. Annual reports are only submitted to shareholders and thus are not publicly available.[345] In fact, section 13.10 of the Shareholders Agreement states that "no public announcements concerning this Agreement or the formation of the Company will be made without the approval of all parties."[346]

JDI operates under a Special Licence granted under the Radio and Telegraph Control Act. This license, which commenced on the first of May, 1988, is effective, as in accord with the other licenses awarded in 1988, for a period of twenty-five years and "unless terminated at the end of that term by either party upon at least two years prior notice in writing, it shall continue thereafter subject to such notice at any time."[347] Further, the Digiport is granted an exclusivity period of seven years, that is "no licence shall be issued to any entity to provide any of the licensed services to persons located within any Free Zone and falling within any of the categories of subscribers specified in sub-clause (2) (a) of clause 2 ... for a period of seven years

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[345] Max Wynter, Personal Interview, 5 October 1993.

[346] Telecommunications of Jamaica Limited, American Telephone and Telegraph, and Cable and Wireless, Shareholders Agreement, p. 18.

[347] The Radio and Telegraph Control Act, Special License (Kingston: n.p., 15 April 1988), p. 14.

commencing with the effective date ... of this Licence."[348] Sub-clause (2) (a) of clause 2 reads as follows "The purposes for which the Licensed apparatus may be established, maintained and used shall be for - (a) The provision of dedicated, private line and/or public two-way or one-way switched or unswitched voice, data, facsimile and video communications services between points in any Free Zone and points outside of Jamaica to subscribers located in any Free Zone."[349]

Thus, to date, information processing companies in Jamaica have been limited in their choice of transmission and have had to use either JDI or TOJ at the set rates. Rates for using the Digiport are determined by the President of JDI and need not be approved, as in the case of TOJ, by the Minister responsible for public utilities. If an information processing firm is not based in a Free Zone, then TOJ requests a "hook-up" to JDI on behalf of the company with this arrangement transparent to the company requiring the service. JDI bills TOJ for a portion of a circuit which in turn bills the customer, the information processing company.

The information processing companies in Jamaica are experiencing difficulties in competing with similar firms in Mexico and the Philippines who can choose their transmission mechanism. For example, Mexico can use PANAMSAT which offers less expensive transmission than INTELSAT. Management Control Systems Ltd., a Jamaican data processing firm with, as is common, a U.S. partner, sought permission in the spring of 1993 to set up their own satellite to receive and transmit data, but

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[348] The Radio and Telegraph Control Act, Special License, p. 9.

[349] The Radio and Telegraph Control Act, Special License, p. 3.

received no response.[350] Now perhaps, with the expiration of the terms of exclusivity, they may reapply and other firms too may exercise greater choice in regard to transmission vehicles. Transmission options must be made available and more value must be added, that is, new services must be offered, in order for the firms to be competitive. Low-cost labor can not ensure the survival of the information processing industry in Jamaica.

The present size of the data processing industry in Jamaica does not significantly impact the economy in terms of foreign exchange. At present, there are approximately 1,500 data entry employees in the Montego Bay Free Zone, but the potential for growth does exist through diversification into other information processing activities. Hence, the long term monopoly status of TOJ and JDI constitutes short-sightedness on behalf of the government. Michael Hicks, C.E.O. of one of the few locally owned information processing companies in the Montego Bay Free Zone, rightly points out that for a government that espouses a free market economy, there is not a free market in telecommunications. He contends that the monopoly arrangement in the telecommunications sector will hamper Jamaica's development well into the next century.[351]

The government's failure to integrate development goals with telecommunications policy is evident in several respects concerning regulation governing JDI. Although Jamaicans have been hired for technical jobs with the

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[350] Wendell Smith, Personal interview, 27 September 1993.

[351] Michael Hicks, Personal interview, 29 September 1993.

Digiport do now occupy managerial positions, this was not stipulated in the contracts signed with the Jamaican government.[352] The government did not exert control or direction regarding this aspect of telecommunications regulation. A telecommunications policy which included regulatory frameworks, such as in regard to the Digiport, governing data flows, data processing, and the transfer of technology and management skills to the locals, was not prepared by the Minister responsible for public utilities. The Jamaica Exporters Association publicly stated its view that the Minister for Public Utilities, which is presently Robert Pickersgill, should be relieved of discretionary powers which affect the granting of licenses for telecommunications and that such powers should be transferred to a regulatory body.[353]

**Office of Utilities Regulation**

The creation of an independent regulatory authority was also recommended by the subcommittee, formed by the Cabinet in early 1993 under the chairpersonship of the Attorney General, to examine an appropriate instrument for the regulation of natural monopolies, particularly, utilities. This committee recommended the establishment of an Office of Utilities Regulation (OUR) based in part on the British model of regulatory

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[352] Donna A. Demac and Ruth J. Morrison, "US-Caribbean telecommunications: Making great strides in development," Telecommunications Policy, 13, No. 1, March 1989, p. 56.

[353] "JEA wants TOJ's licence renegotiated," The Gleaner, 20 November 1993, n.p.

instrument, but with a single integrated regulatory agency overseeing all of the utilities. Given the small size of the country and its economic and human resource constraints, it was deemed advisable that one agency govern the assorted utilities.

The Office of Utilities Regulation Act, 1995, which repeals the Public Utility Commission Act of 1967, was passed in the House of Representatives on the 28th of February 1995. Several responsibilities have been designated to the OUR. It is to process applications for a license to provide a utility service and make recommendations for the application's approval or rejection to the responsible Minister, monitor standards and quality of service, administer rate application within the existing framework, conduct investigations of the performances and accounting systems of the utility companies and in general provide consumer protection. The utility services overseen by the OUR include the supply or distribution of electricity, the provision of telecommunications services, the supply or distribution of water, the provision of sewage services, and the provision of public passenger transportation by road, rail or ferry.[354]

Due to the breadth of the OUR, it has been proposed that the organizational structure of the OUR include separate industry directorates to ensure the retention of industry specific experience. Legislation specific to each industry is to be instituted which will outline the powers of regulation in terms of the OUR and the respective sector Minister. In regard to telecommunications, until a new Act is passed pertaining

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[354] The Office of Utilities Regulation Act, 1995 (Kingston: Jamaica Printing Services, 28 February 1995), p. 11.

to the sector it is unclear precisely how the power of the OUR will be weighed against that of the Minister responsible for public utilities. The OUR would undoubtably, however, assume some responsibility for implementing the All Island Telephone Licence, 1988, and the four ancillary licenses granted in 1988 as well as any new licenses to be awarded. To date, the OUR, which has received a US$1.4 million grant from the Multilateral Investment Fund of the Inter-American Development Bank for its facilitation, has not been actualized, though efforts are being made for its establishment in early 1996.[355] The Office of Utilities Regulation Act itself will not be proclaimed into law until the structure is operational. This situation somewhat mirrors that in Trinidad and Tobago, where legislative changes, too, have been affecting the telecommunications sector.

## Telecommunications Regulation in Trinidad and Tobago

### *The Telecommunications Authority*

The Telecommunications Authority Act, 1991, that is, Act No. 40 of 1991, provides "for the establishment and incorporation of the Trinidad and Tobago Telecommunications Authority (Authority) and for the regulation of telecommunications services operating in Trinidad and Tobago or on any ship, aircraft, vessel or other contrivance registered in Trinidad and Tobago and for the regulation of the use of

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[355] Cezley Sampson, Personal Interview, 5 September 1995.

apparatus in telecommunications services and for related purposes."[356] The functions of the proposed Authority include:

> (a) to formulate policies governing the development of telecommunications subject to the approval of the Minister and ensure compliance with those policies;
>
> (b) to formulate, on consultation with producers, broadcasters and the general public, policies governing all broadcast material and to ensure compliance by broadcasters and producers;
>
> (c) to determine and implement national telecommunications standards and regulations and ensure compatibility with standards of the International Telecommunications Union and other international and national standards;
>
> (d) to advise Government on positions and policies relating to telecommunications issues at international, regional, and national levels;
>
> (e) to assign radio frequencies; . . .
>
> (f) to determine tariffs for all internal and external telecommunication services for public correspondence, other than those provided by a public utility and in respect of which tariffs are determined in accordance with the Public Utilities Commission Act, or any other enactment;
>
> (g) to investigate complaints from consumers and other entities concerning all telecommunications services; . . . and
>
> (h) to engage in carrying out research programs.[357]

As indicated by the functions listed above, the Authority has been vested with extensive responsibilities, including the issuing of licenses and granting of concessions.

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[356] Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 30, No. 307, 21st November, 1991, Fifth Session Third Parliament Republic of Trinidad and Tobago, Act No. 40 of 1991, L.S., p. 309.

[357] Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 30, No. 307, 21st November, 1991, Fifth Session Third Parliament Republic of Trinidad and Tobago, Act No. 40 of 1991, L.S., pp. 317-319.

The proposed Authority is to be managed by a Management Board consisting of (a) a Chairperson and eight members appointed by the President after consultation with the Prime Minister and the Leader of the Opposition and (b) a Director who shall be ex officio a member of the Board but shall not have a vote. Of these nine members, one is to be an attorney and at least three must have qualifications in fields relating to telecommunications.[358] All appointments are not to exceed a three year period, though the President may terminate the appointment of any Board member.[359] The Board is to meet once a month and at other times deemed necessary by the Chairperson. At any meeting of the Board, six members will constitute a quorum. The decisions of the Board are to be adopted by a majority of the votes of the members present and voting.[360]

The Telecommunications Authority Act, 1991, was enacted by Parliament and assented to by the President on the 18th of November 1991. It is, thus, a valid law, but it is not in effect since it was not proclaimed by the President. The Act was not proclaimed into law, in part, because the proposed Telecommunications Authority, a new body corporate to regulate telecommunications, was not operational. The President

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[358] Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 30, No. 307, 21st November, 1991, Fifth Session Third Parliament Republic of Trinidad and Tobago, Act No. 40 of 1991, L.S., p. 313.

[359] Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 30, No. 307, 21st November, 1991, Fifth Session Third Parliament Republic of Trinidad and Tobago, Act No. 40 of 1991, L.S., p. 314.

[360] Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 30, No. 307, 21st November, 1991, Fifth Session Third Parliament Republic of Trinidad and Tobago, Act No. 40 of 1991, L.S., p. 315.

also chose not to proclaim the Act since national elections were imminent. The change in government leadership in December 1991 with the PNM's return to power has delayed the proclamation of the Act indefinitely.

While it has seems unlikely that any such Telecommunications Authority will in fact be created, it is clear that the government of Trinidad and Tobago did not adequately address regulatory issues prior to engaging a private equity investor in TELCO. It was only during the negotiations with C&W that changes in the regulatory environment were confronted. The agreed upon alterations were set forth in the Shareholders' Agreement and then in Act 22 of 1990 which amended the Telephone Act.

***Amending the Telephone Act, Act 22 of 1990***

In May 1990 it was proposed that the Trinidad and Tobago Telephone Act Chapter 47:30, Act 7 of 1968 amended by 5 of 1976, be amended in several respects with regard to the telephone company, TELCO. Act No. 22 of 1990 specifies these amendments. According to clause five, amending section 16 of the Telephone Act, the rate to be charged by TELCO was to be fixed by the Public Utilities Commission (PUC) so as to enable TELCO to earn a return of not less than 15 percent a year on the rate base, that is, a strict rate base or rate of return (ROR) approach. TELCO was previously required to earn a return of not less than seven percent and not more than eight and a half percent a year on the rate base. It has been asserted in the press that

C&W demanded legislation altering the existing rate base in order to guarantee an annual double-digit rate of return on its investment.[361] Actually, unbeknownst to the public, the change in the rate of return was negotiated with Cable and Wireless prior to its shareownership in TELCO and was stipulated in the Shareholders' Agreement. The Shareholders' Agreement states

> 12. (b) The Company shall be permitted to earn on its Domestic Operations an annual return of fifteen percent (15%) on the rate base. . . .
>
> (c) To allow the Company an annual return as stated in subclause 12(b) hereof, the Government undertakes that as soon as possible after signature of this Agreement, but in any event no later that 30th April 1990, all necessary legislation and statutory instruments will be presented to Parliament so as to allow the Company to achieve the said return. . . .[362]

Act 22 also amended section 2 of the Telephone Act with the insertion of sections 2A and 2B regarding calculation of the rate base and accounting basis for TELCO, respectively.[363] The Shareholders Agreement further stipulated the merger of TEXTEL with TELCO. Amending section 3 of the Telephone Act thus enabled the amalgamation in stating

> 3A. (2) Where an agreement has been entered into by [TELCO] with the Shareholders or with the directors on behalf of the Shareholders for the acquisition by [TELCO] of the undertaking or part of the undertaking of Textel,

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[361] Maxi Cuffie, "Telco to Get Power to Increase Rates," Trinidad Guardian, 19 January 1990, n.p.

[362] Shareholders' Agreement Between The Government of Trinidad and Tobago, The Trinidad and Tobago Telephone Company Limited, Cable and Wireless (West Indies) Limited and Cable and Wireless Public Limited Company (n.p.: n.p., 20th December 1989), pp. 22-23.

[363] Republic of Trinidad and Tobago, Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 29, No. 332, 26th November, 1990, Fourth Session Third Parliament Republic of Trinidad and Tobago, Act No. 22 of 1990. L.S., pp. 272-273.

> the Shareholders may by resolution authorise the issuance of a power of attorney conferring on the Minister authority to transfer to and vest in the [TELCO] as from the appointed day such existing property, assets, rights, power, liabilities and obligations of Textel as the Shareholders may think fit.
>
> (3) Where a power of attorney is issued under subsection (2), the Minister may make a vesting order transferring to and vesting in [TELCO] as from the appointed day such existing property, assets, rights, powers, liabilities and obligations of Textel as he may be authorised to transfer by the power of attorney.[364]

These proposed changes amending the Trinidad and Tobago Telephone Act were passed by the Parliament of Trinidad and Tobago and assented to by the President on 13 November 1990 in Act No. 22 of 1990. The Vesting Order enabling TELCO's acquisition of TEXTEL was passed shortly thereafter on the 24th of December 1990, hence the creation of TSTT.

Act 22 did not, however, amend the Telephone Act in regard to the social obligations of the telephony company. According to Part II, paragraphs 8, 9, and 10 of the Telephone Act, the company is required to construct, maintain, and operate its works in a safe and efficient manner and to attempt to rectify any interruptions in service without unnecessary delay; to continue to maintain telephone services to any town, village or rural area once these services have been established, except with the consent of the responsible Minister; and to establish at least one public coin telephone in every town or village to which telephone services have been constructed.[365] Had

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[364] Republic of Trinidad and Tobago, Legal Supplement Part A to the "Trinidad and Tobago Gazette", Vol. 29, No. 332, 26th November, 1990, Fourth Session Third Parliament Republic of Trinidad and Tobago, Act No. 22 of 1990. L.S., pp. 273-274.

[365] Republic of Trinidad and Tobago, Trinidad and Tobago Telephone Act Chapter 47:30, Act 7 of 1968 Amended by 5 of 1976. L.R.O. 1/1980, p. 10.

the government acted in a judicious manner, Act 22 would have amended the existing legislation by requiring the expansion of the telephone network into rural communities and programmed increases in the telephone penetration rate. Altering the Act in regard to achieving these social goals, however, was not suggested.

***Restructuring the Public Utilities Commission (PUC)***

The new legislation currently being proposed principally concerns the role and restructuring of the PUC. The legislation would, as in Jamaica, repeal and replace the existing Act governing the PUC, that is Act No. 15 of 1966 Chapter 54:01, and those portions of the Telephone Act which relate to the PUC's jurisdiction over TSTT. It is also being proposed that the rate of return fixed by the PUC be replaced with price caps. These recommendations are among several cited in the report issued by the Public Utilities Commission Task Force (Task Force) which was appointed by the Cabinet in February 1993 to review the PUC.

The PUC, which in Jamaica has been dormant since 1976 due to high administrative costs and political manipulation, has witnessed an equally dismal demise in Trinidad and Tobago. It was inactive during 1974-1979 because no chairpersons or commissioners were appointed to replace those who resigned. The government had also adopted the policy of subsidizing the utilities rather than allowing rate increases. The government had seriously considered dismantling the PUC in 1979, but after an investigation decided against so doing and appointed a new Chairperson. By the early

1980s, with the downturn in the economy, it was deemed necessary that the companies reduce their reliance on the exchequer, thus, the government granted permission for the utilities to seek rate reviews from the PUC.

The rate setting process had not been altered, however, and the PUC proved ineffective. Several reasons account for the failure of the PUC. One problem concerns the excessive length of time in determining rate increases due to the over judicialization of the review procedures. According to the Task Force, "perhaps the greatest single defect in the existing machinery is the provision that all rates for public utilities must be fixed by a Tribunal after a hearing by such Tribunal" which unfortunately serves as a contest between representative counsel and thus places too much emphasis on the legal ramifications of rate determination rather than the economic and social issues which ought to inform sound rate-making.[366] The entire protracted and costly exercise also appears unnecessary given that "the Commission itself, by virtue of Part III of the Act, may have had at its disposal enough relevant information to arrive at a decision as to whether or not there was a need for an adjustment in the rating structure of a public utility and the quantum of such adjustment."[367] Furthermore, the profitability of the utilities have been adversely affected by the fact that there is no limit to the time taken between an application for a rate increase and a decision regarding the matter.

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[366] Report of the Cabinet-Appointed Task Force to Review the Public Utilities Commission (Port of Spain: n.p., 1993), pp. 12-13.

[367] Report of the Cabinet-Appointed Task Force to Review the Public Utilities Commission, pp. 12-13.

Other problems afflicting the PUC include a lack of resources and well qualified staff to undertake proper investigations of the utilities, faulty judgment in appointing the Chair of the Commission, and political pressures. Another critical obstacle to the effective functioning of the PUC is its inability to obtain the necessary information from the utilities themselves. The PUC is limited in its ability to compel companies to comply with its requests for information. An article in the Trinidad Express reports that two years after the PUC requested documents from TSTT, the telephone company had yet to comply.[368]

The PUC has historically operated almost exclusively as a rate-fixing body with no control over quality of service. Since rates ought not to be set in isolation of performance and standards of services being provided, the Task Force, in restructuring the PUC, seeks to empower the Commission to set performance standards and indicators and establish mechanisms for their monitoring. It also recommends that after a utility applies for an alteration of rates, a final decision be made within a three month time frame regarding that application.[369] The PUC is to no longer operate as a tribunal. As to the composition of the Commission, the Task Force agreed that the policy making organ of the organization should consist of a Board of nine Commissioners appointed by the President who would take an oath of secrecy.[370]

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[368] Sheila Rampersad, "PUC: We're still waiting on report from TSTT," Trinidad Express, September 1993, n.p.

[369] Report of the Cabinet-Appointed Task Force to Review the Public Utilities Commission, pp. 15-16.

[370] Report of the Cabinet-Appointed Task Force to Review the Public Utilities Commission, pp. 48-49.

In responding to the report of the Task Force, Nigel Davis, the C.E.O. of TSTT,[371] recommended that the staff of the PUC as well as any committees established under the PUC should also take an oath of secrecy.[372] In a reputed democracy it would seem ill conceived that information would be restricted in such a manner, especially information about a Commission which is to oversee that the utilities operate on behalf of the public's well-being. Davis, further, boldly suggests in a letter to the Permanent Secretary of the Ministry of Public Utilities, "the simplest, but by no means the best, remedy may be to maintain the PUC as a monitoring authority and dilute its "rate fixing" powers by inserting such words as "recommend", and "agree with management", which would leave the final decision on rates, within given parameters, to management."[373] Vesting such authority in a monopoly would defy the public interest. Although it appears that both the Government and C&W deem an alteration of the regulatory environment as a pre-requisite to a flotation of TSTT shares on the Trinidad and Tobago Stock Exchange, to suggest that the monopoly upon which the country relies for telephony service set its own rate is abhorrent, notwithstanding the apparent fact that the rate setting process was poorly constructed and executed.

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[371] Davis had been appointed by C&W for the Shareholders Agreement stipulated that C&W could appoint the C.E.O. for the first five years after the creation of TSTT.

[372] Nigel Davis, "Report of the Cabinet Appointed Task Force to Review the Public Utilities Commission," TSTT Ref. No. 10000/207/93 (Port of Spain: TSTT, 13 August 1993), p. 4.

[373] Nigel Davis, "Proposals for Improvement in the Operations of the Public Utilities Commission (PUC) in its Dealings with Telecommunications Services of Trinidad and Tobago Ltd (TSTT)," TSTT Ref. No. 70000/86/93:FCS:P11 (Port of Spain: TSTT, 18 March 1993), p. 6.

Davis states that the rate review proceedings were excessively time consuming, complicated and costly with the fixing of a return on rate base contributing to unnecessary administrative burdens. He contends that the permitted 15% return on rate base is not only too low as a return to shareholders, but as an incentive to invest.[374] He argues that the effect of Act 22 was "to impose on the then Telco a maximum rate of return of 15% before [corporation] tax and interest payments on loans thereby providing an effective rate of return of 8.25% after tax, assumed at 45%. This is actually less than the previous maximum of 8.5% after tax that existed previously."[375] TSTT is thus "generally in favor of a price-cap arrangement subject to the overriding requirement that the formula provides for an adequate return on capital employed."[376] The Minister of Public Utilities, too, fully supports the price cap approach to the setting of rates.[377]

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[374] Nigel Davis, "Proposals for Improvement in the Operations of the Public Utilities Commission (PUC) in its Dealings with Telecommunications Services of Trinidad and Tobago Ltd (TSTT)," pp. 4 and 2.

[375] Nigel Davis, "Proposals for Improvement in the Operations of the Public Utilities Commission (PUC) in its Dealings with Telecommunications Services of Trinidad and Tobago Ltd (TSTT)," p. 6.

[376] Nigel Davis, "Implementation of Recommendations in the Report of the PUC Review Task Force," TSTT Ref. No. 10000/167/93 (Port of Spain: TSTT, 23 July 1993), p. 3.

[377] "Additional Comments of the Minister of Public Utilities on Notes Nos. PU (93) 25, PU (93) 36 and PU (93) 61," Extract of Cabinet Minutes (Port of Spain: Ministry of Public Utilities, 1993), p. 2.

***Price Caps vs. Rate of Return***

Of the three ratemaking mechanisms, strict rate base/rate of return regulation, rate of return benchmark, and the price cap formula, the latter provides the greatest incentives for a utility to operate efficiently as it is allowed to benefit from cost savings programs. A utility is able to retain the increased profits which result from reducing costs and employing other efficiency improvements. Price caps can thus provide greater financial stability and lower financial risks than strict ROR mechanisms. They can also reduce the potential for political intervention in the ratemaking process. Additionally, price caps are less costly and time consuming to enact than the strict ROR approach.

Price cap regulation establishes an initial average price and permits this average to change by the rate of inflation, the Retail Price Index (RPI), less a specific amount, X, which represents controllable costs. Price adjustments can be made in any direction so far as the average price does not exceed the amount authorized.[378] While the price control formula must protect ratepayers from the possibility of monopoly pricing, it must also allow the utility to record gains from improved performances over a reasonable timeframe. Price caps, while reducing the administrative costs associated with strict ROR regulation, do require a relatively high degree of impartiality and technical expertise in setting the initial price and in conducting periodic reviews of the formula. Periodic reviews, which should generally not occur more than once every

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[378] Price Waterhouse, "Extract from the Trinidad and Tobago Public Enterprise Sector Study," In Report of the Cabinet-Appointed Task Force to Review the Public Utilities Commission (Port of Spain: n.p., 1993), p. 18

three years, gives the regulator the opportunity to alter the formula as factors such as changes in technology or competition may affect the existing framework.[379] The price cap approach to regulation does not, however, provide a strong framework for detecting discriminatory pricing or cross-subsidies, but nor, for that matter, does the ROR benchmark approach.

The ROR benchmark system enables a utility to increase its rates so long as the agreed upon rate of return is not surpassed. This approach is similar to the mechanism used in Jamaica, where TOJ can earn an after-tax return of not less than 17.5 percent nor more than 20 percent on equity per the audited accounts, including the effect of asset revaluation. The principle advantage of the ROR benchmark approach over strict ROR regulation is the simplicity of its execution. It requires little regulatory expertise and after the method of valuation for the utility's assets is established, there are relatively few administrative costs associated with protracted and contentious rate hearings common to strict ROR regulation. Another advantage of the ROR benchmark approach is the financial stability it generates. Shareholders are virtually guaranteed an adequate rate of return as prices can be raised to ensure this return. In view of the ability to revalue assets, this translates into a high hard currency return in countries with weak currencies.[380] The ROR benchmark approach does not, however, eliminate the most serious drawback associated with strict ROR regulation, that is, the provision of

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[379] Price Waterhouse, "Extract from the Trinidad and Tobago Public Enterprise Sector Study," pp. 20 and 24.

[380] Price Waterhouse, "Extract from the Trinidad and Tobago Public Enterprise Sector Study," p. 16.

perverse incentives for a utility to expand its asset base beyond optimal levels and operate inefficiently.

A system of ROR regulation encourages poor management practices. For example, a telecommunications operator may relax its control on recurrent costs knowing that any savings made will be nullified by a reduction in permitted revenue. A firm will thus avoid programs which generate efficiency. Similarly, if the rate of return falls short of the operating company's cost of borrowing, then the incentive to invest in the network is undermined. There can be a tendency to make investment decisions on a need to increase the rate base rather than to maximize the use of existing equipment. While price caps reward management's efficient control of costs, the disadvantage of such a method is that the operator might sacrifice quality of service standards in pursuit of increased profits.

***Board of Directors***

It is thus imperative that a PUC or other regulatory authority be entrusted to set and oversee service standards in the public's interest. This monitoring mechanism is essential given the politicalization of the Board of Directors. The Board serves as the principal device by which the government monitors and negotiates with C&W in matters regarding TSTT. Despite the important role ascribed to the Board, it is not, as in Jamaica, comprised of those with expertise and understanding of the telecommunications industry, but with political appointees. Further, the current Chair

of the TSTT Board, Charles Jacelon, was recommended by C&W. Jacelon, an attorney, had previously been hired by C&W to advise them in negotiating with the Government for the purchase of shares in TELCO. This situation, like that in Jamaica where Mayer Matalon has secured the appointment of his son to the TOJ Board, is not in the public's interest. Although privatization is recommended in response to problems in the public sector, problems which include political interference, it would appear that political considerations continue to dominate Board appointees, regardless of divestment.

The Shareholders' Agreement may also make it more difficult for the PUC or any such organization to effectively monitor the performance of TSTT.

> (d) The Government and the Company will agree from time to time on specific performance criteria for the efficient provision of telecommunications services using modern technology.[381]

Such arrangements and language do not bear favorably upon the public's well-being.

***Monopoly Status of TSTT***

Arguably, however, the public's interest has already been disregarded by effectively awarding monopoly privileges to TSTT through the Telephone Act and the Shareholders' Agreement. The Telephone Act grants TSTT the exclusive right to operate a public telephone system and a Special External Telecommunications Licence enables the company to operate international services for twenty years from 13 July

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[381] Shareholders' Agreement Between The Government of Trinidad and Tobago, The Trinidad and Tobago Telephone Company Limited, Cable and Wireless (West Indies) Limited and Cable and Wireless Public Limited Company, p. 25.

1989 with an option for renewal on negotiable terms. The Telephone Act also makes it an offense to attach or connect any equipment to facilities furnished by TSTT unless it so authorizes. The Shareholders' Agreement also gives TSTT the first right of refusal to offer new services. Under section 16 pertaining to licences, it states

> (c) The Government hereby undertakes that prior to any new licence being granted to any other person or organisation other than the Company to operate telecommunications services that the Company shall be granted the opportunity to provide those services on such terms and conditions as shall be no less favourable than those proposed to be made available to such other person or organisation.[382]

***Licensed Competition***

TSTT has, however, granted Borde Communications and other firms a license, which must be renewed annually, to supply, install and maintain private branch exchanges. Borde Communications is a subsidiary of the Neal & Massy Group, the largest and most diversified conglomerate in the Caribbean. Borde, which operates in Guyana and several Caribbean islands, has historically been known for the provision of two-way radio communication. It offers a paging system in T-T and operates the largest private microwave network in the country. Borde and other companies also act as agents for established telecommunications equipment manufacturers such as AT&T and Motorola. While this situation offers an element of competition, it must be reiterated that the license under which these firms operate must be renewed on an

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[382] Shareholders' Agreement Between The Government of Trinidad and Tobago, The Trinidad and Tobago Telephone Company Limited, Cable and Wireless (West Indies) Limited and Cable and Wireless Public Limited Company, p. 25.

annual basis. Further, while these firms may sell, say, cellular equipment, they can not offer cellular service.

**Conclusions**

In conclusion, neither Jamaica nor Trinidad and Tobago adequately addressed and enacted effective regulatory mechanisms prior to the divestment of the telecommunications sector. Although rates must be approved by the respective governments, the process appears to date to be but one of a rubber stamp in Jamaica and an ineffective one in Trinidad and Tobago where the PUC is merely a paper tiger. In neither instance can the government mandate that the telephone company provide universal service. It appears that both Jamaica and Trinidad and Tobago have yet to create an effective level of regulation, though efforts are being made in this direction, which would assure that the public's interest in rural and residential service and new services is addressed. Neither country appears to have a well-constituted policy of regulation, which may, in fact, be difficult to generate in an atmosphere of deregulation.

It might well serve the national development of both countries to consider several studies in which the importance of the telephone and its penetration in rural and residential areas have been cited. A study conducted by Hardy, quoted by Jequier and Pierce, made the following findings:

> (a) The telephone clearly seems to be a much more important factor in the development process than one-way communications systems like radio;

> (b) The role of the telephone in economic development is more important in the developing countries than in the industrialized countries;
>
> (c) The lower a country's level of development, the greater the potential contribution of telecommunications to economic development; and
>
> (d) In the developing countries, the residential telephone is far more important than it was generally thought to be, and its relative neglect by planners is not justified.[383]

The governments need to adopt a long range view of their country's growth and evolution and understand the importance of an appropriate regulatory instrument to ensure that telecommunications facilitates social and economic development goals.

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[383] Nicholas Jequier and William Pierce, "The Macro-Economic Effects of Telecommunications," Telecommunications for Development (n.p.: ITU, 1983), p. 24.

# VI. CONCLUSIONS

This chapter seeks to make some concluding statements which address the research questions and propositions as set forth in the Introduction.

In examining the relationship between the political and economic environment of the state and the decision to divest the telecommunications sector, it is clear that in both Jamaica and Trinidad and Tobago the predominant factor prompting divestment of the telecommunications sector was the acquisition of foreign exchange to service external debt obligations and build the international net reserves. Although both countries undertook economic reforms in conjunction with the Bretton Woods institutions, divestment was not necessarily always part of a broader strategy aimed at restructuring the state. In Jamaica the Seaga administration initially employed divestment as a means to cope with the budget deficit in a situation where an increase in expenditure on social services was deemed indispensable for the government's continued political survival.

Support for privatization has, nonetheless, transcended party ideology and party lines in Jamaica, as well as Trinidad and Tobago, in part because of an ideological shift in the 1980s. The ability of successive administrations to change the policy of divestment is, however, determined in large measure by the general economic status of the state. If the loans acquired by the previous, or current, administration make but a negligible contribution to the earning of foreign exchange, then meeting the conditionalities associated with the lending agreements may well compel divestment.

The PNP administration under Manley sold the government's remaining shares in TOJ to C&W to meet IMF targets. C&W thus became, as in Trinidad and Tobago, the corporate beneficiary of internal deficiencies. Notwithstanding the problems associated with IMF tests or periodic reviews, the PNP administration employed but a crisis management approach to governing. Divestment under economic duress is an utterly unsustainable approach to development.

In the process of divestment the PNP made no attempt to emphasize public offerings as opposed to direct sales. The NAR, too, only considered foreign firms, despite its policy platform that shares in state enterprises to be divested would be offered to workers and their affiliated Unions and to local capital. This is an utterly undemocratic approach to the privatization process. Income redistribution can not be addressed when domestic ownership is limited and ownership is concentrated in a foreign entity. C&W was in both instances the investor of choice, in large part due to their historical intimacy with the telecommunications network and the political environment of each country and the region as a whole.

Having C&W as a ready investor clearly eased the process of telecommunications divestment in both Jamaica and Trinidad and Tobago. Although it seems likely that the government of Trinidad and Tobago will make a public offering of TSTT shares at some point in time, this would not remove the presence of C&W. It thus appears that, regardless of performance, C&W will continue to be the primary telecommunications service provider in Jamaica and Trinidad and Tobago and the broader Caribbean region.

Although the debt problem in Jamaica and Trinidad and Tobago continues to constrain and condition the pattern of development, the divestment of state owned enterprises is not a long term solution to debt servicing difficulties. The state must practice other forms of debt management and assess new loans in terms of the direct and indirect contribution that they can make to the earning of foreign exchange required for future debt service.[384] Divesting firms to service debt is exercising a shortsighted approach which will not resolve what are essentially long term, structural problems. It could in fact make more arduous the seemingly interminable process of adjustment since divestment is but a one time acquisition of revenue and does not continually generate foreign exchange, as could investment in other industries. Divestment does not serve to diversify the economic base of a state. Furthermore, it does not serve to depoliticize the governance of an industry.

As noted, C&W recommended the current Chair of the TSTT Board, Charles Jacelon, who had previously been hired by C&W to advise them in negotiating with the Government for the purchase of shares in TELCO. This situation, like that in Jamaica where Mayer Matalon, among other interventions, has secured the appointment of his son to the TOJ Board, is not in the public's interest. Although privatization is recommended in response to problems in the public sector, problems which include political interference, it would appear that political considerations continue to dominate Board appointees, regardless of divestment.

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[384] Owen Jefferson, "A Note on The External Debt of the English-Speaking Caribbean," in Development in Suspense, eds. George Beckford and Norman Girvan (Kingston: Friedrich Ebert Stiftung, 1989), p. 55.

In terms of the relationship between privatization and performance of the telecommunications firm, it does appear, particularly in Jamaica, that a private telecommunications monopoly offers more services than a public telecommunications monopoly regardless of the absence of competition. This assessment, however, is made on the basis of very limited evidence. Data pertaining to the quality of service was unavailable over any extended time frame. Thus a cautionary amendment to the findings that divestment of the telecommunications sector in Jamaica is yielding highly favorably results in terms of investment and expansion of the network, and thereby indirectly facilitating the attainment of development goals.

Such auspicious effects are less striking in Trinidad and Tobago. This may be attributable to the earlier investment in the network when the firm was a public telecommunications monopoly. Unfortunately, the associated costs of that development program were not financially sustainable by the government in the short-run. The high debt or loss burden which the company bore on its books until the 1994-95 fiscal year when the debt was liquidated may account for its investment reticence. The actual proportion of shares held by C&W in TSTT is significantly less than in TOJ and this too may bear upon its commitment to investment. It is nonetheless ironic that the debt which was incurred in the process of upgrading the network in Trinidad and Tobago became the impetus for telecommunications divestment. It is difficult to determine, however, whether these effects of private foreign investment are temporary, particularly in Jamaica where the notable network investment may make the privatization more

politically palatable, or indicative of long term prospects for growth and expansion of the sector.

The findings, too, do not suggest in any way that a competitive market structure would not be preferable. Competition in the supply of telecommunications equipment and in the provision of various services, such as long distance service, cellular service, and other value added services, should be encouraged. Fair interconnection terms, which are not instituted in either country at present, are vital for effective competition. Competition can assist in meeting the continuous growth in demand expected for telecommunication services.

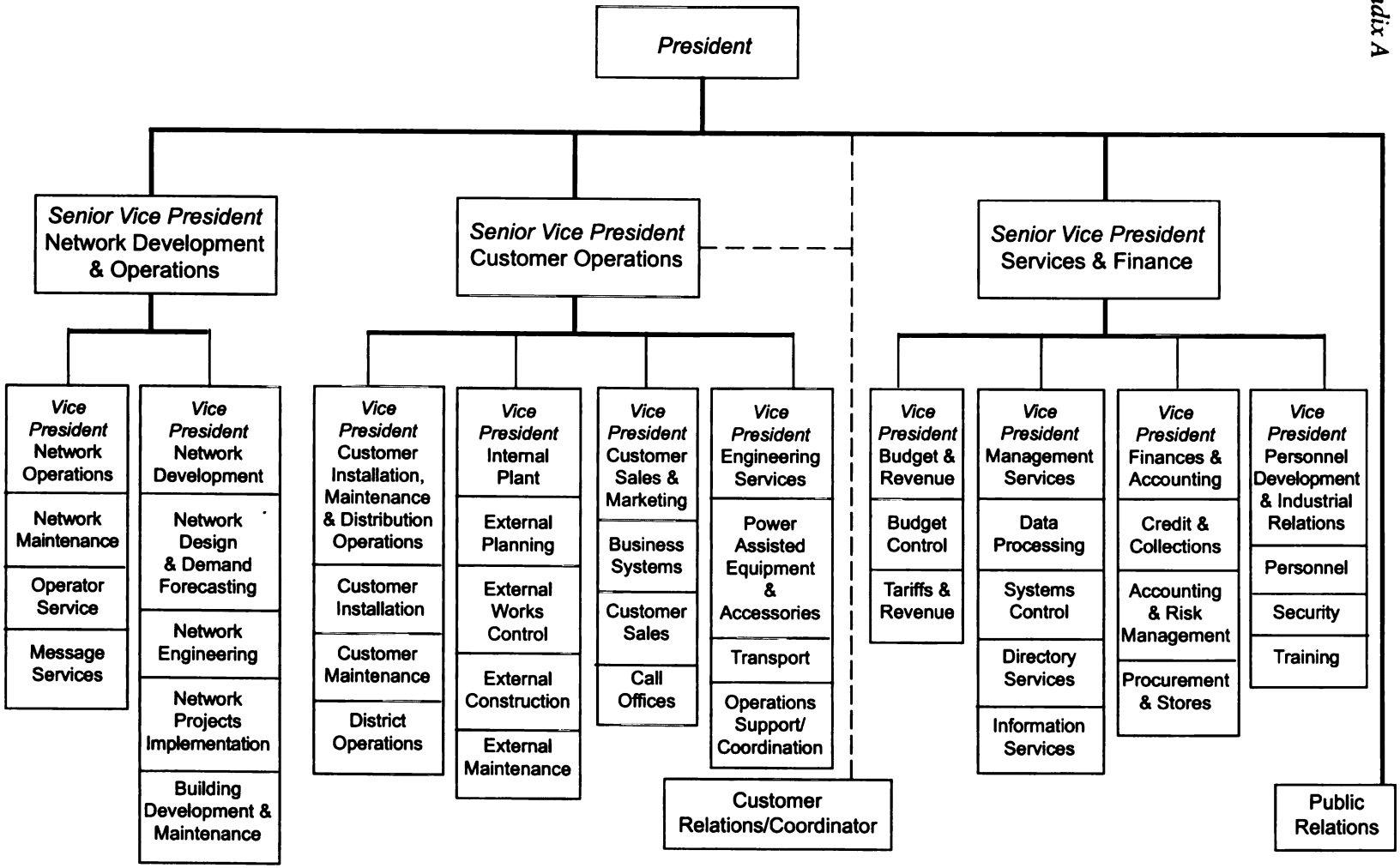
The structure of the telecommunications market, however, depends on the regulatory framework adopted by the government. Although neither Jamaica nor Trinidad and Tobago adequately addressed and enacted effective regulatory mechanisms prior to the divestment of the telecommunications sector, both countries are now in the process of creating or restructuring regulatory institutions separate from the Ministry responsible for public utilities. In neither instance, however, due to existing legislation, can the government mandate that the telephone company provide universal service. The rate alteration process too appears ineffectual. Both Jamaica and Trinidad and Tobago have yet to create a well-constituted telecommunications policy and an effective level of regulation which would assure that the public's interest in rural and residential service and new services is addressed.

Due to the short time frame since the divestments and thus the limited evidence used in assessing the impact of privatization on the performance of the sector, additional

follow-up studies are recommended. Comparing parallel data from other Caribbean countries as well as outside the region, too, would assist in illuminating the effects of privatization on the performance of a telecommunications firm. The corporate strategy employed by Cable and Wireless would also be well worthy of in-depth study as would be an examination of the strategies of other international telecommunication service providers. The trend is toward the global consolidation of the telecommunications sector with several notable transnational companies simultaneously competing and cooperating with one another in the provision of services. This market structure coupled with the lending conditionalities of multilateral agencies may make it more difficult for small countries, such as Jamaica and Trinidad and Tobago, to maximize social and economic benefit from the telecommunications sector given the power of the various external policy making institutions.

# APPENDICES

# Jamaica Telephone Company (JTC)



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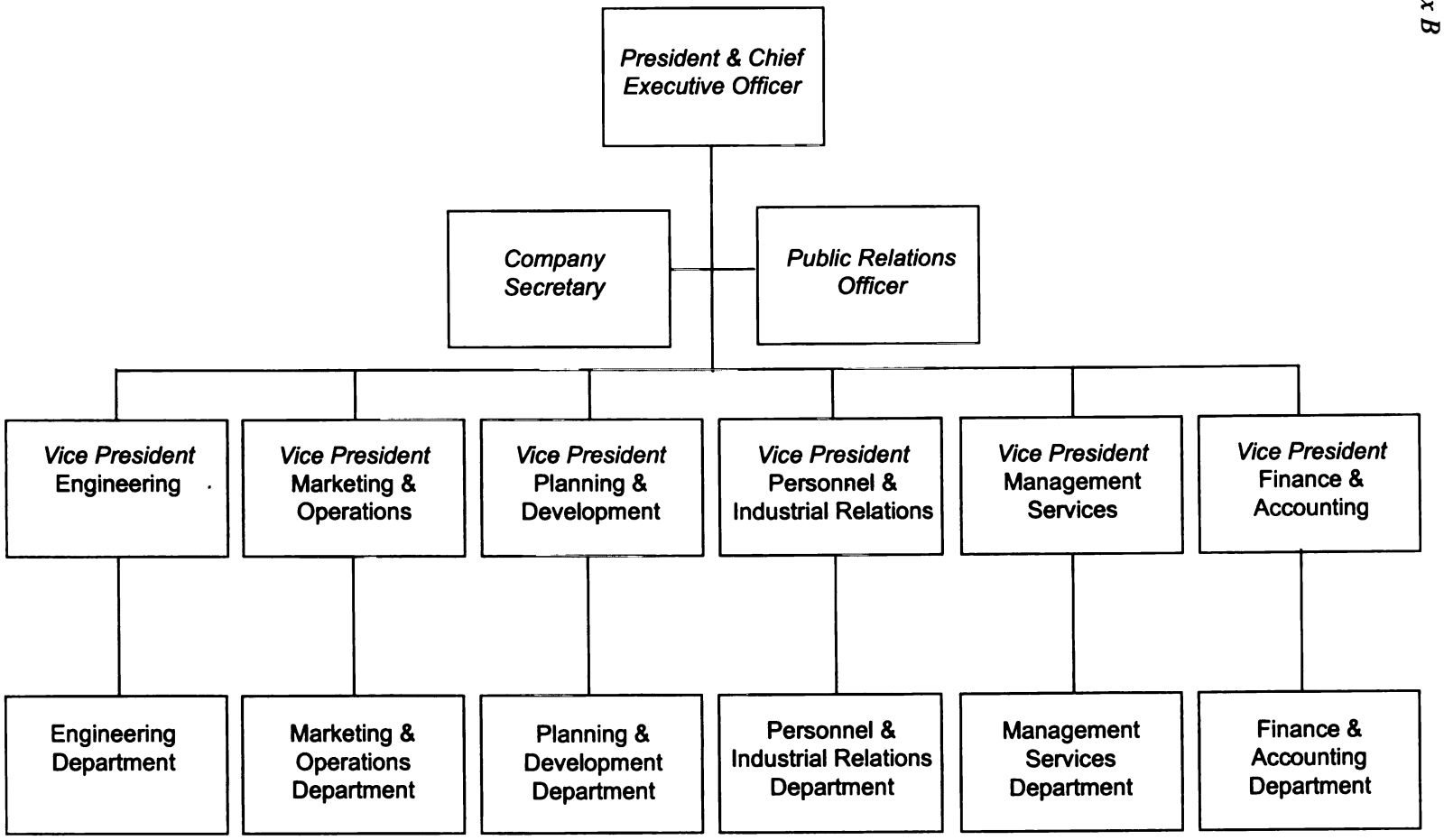

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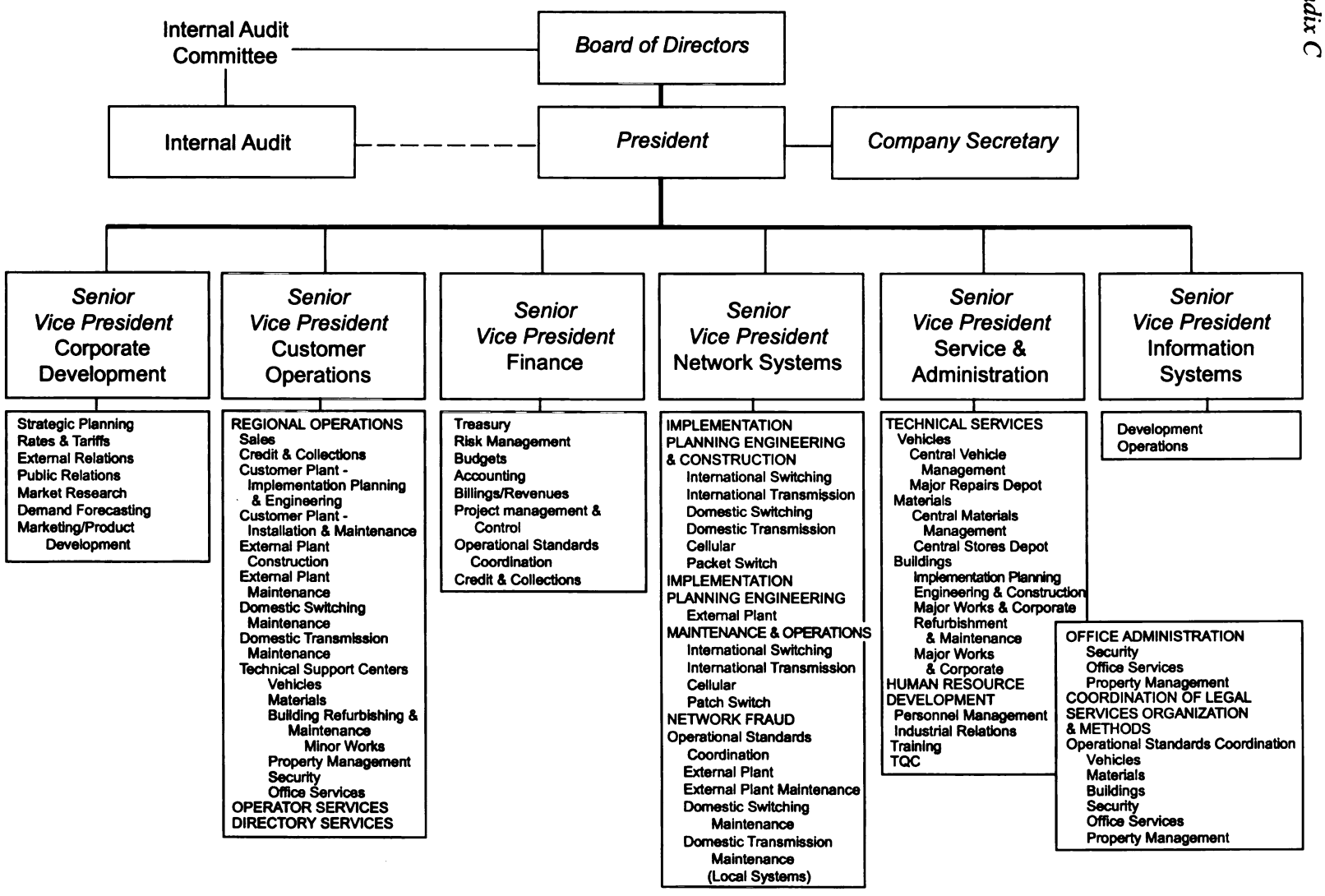

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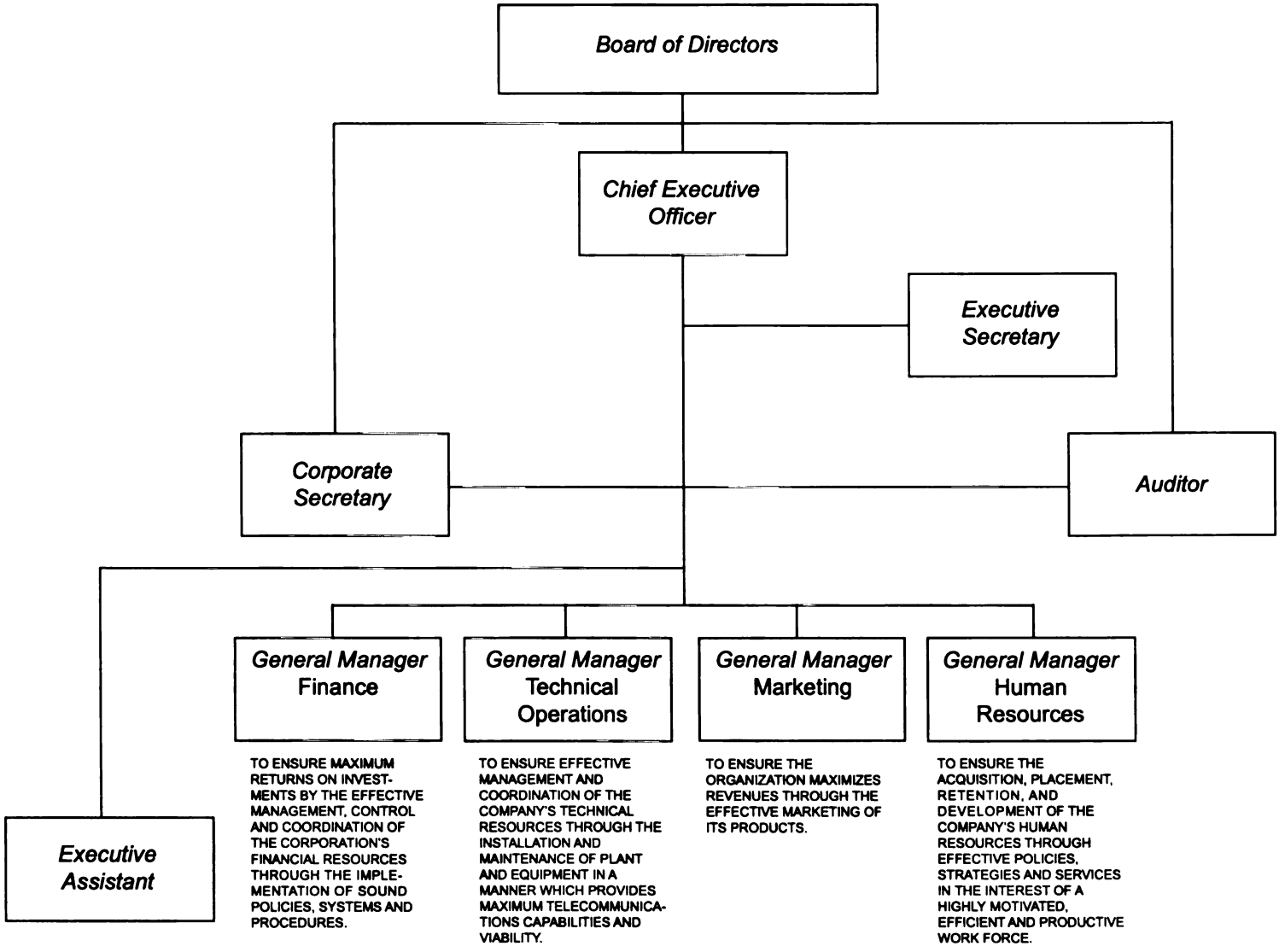

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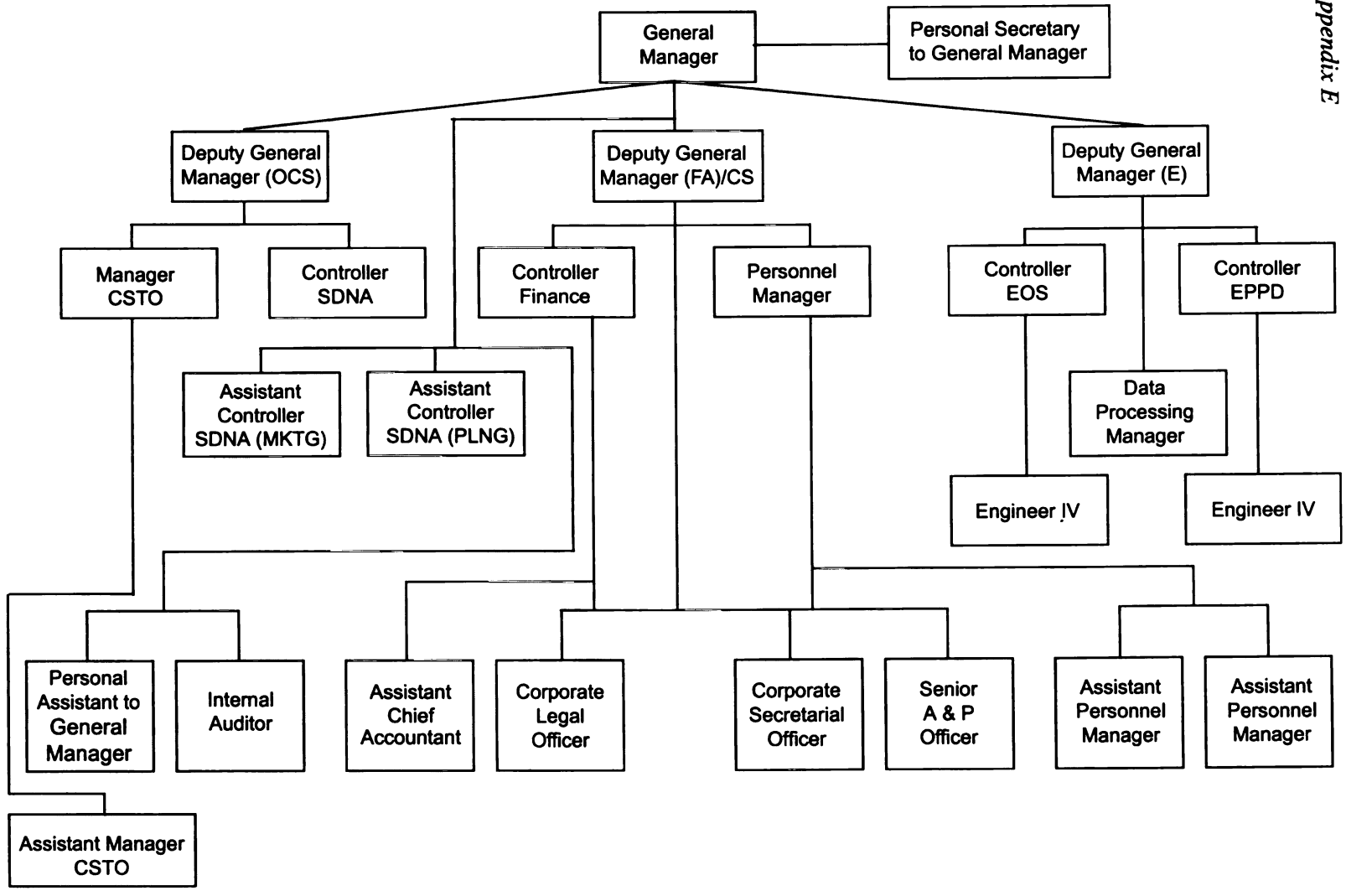

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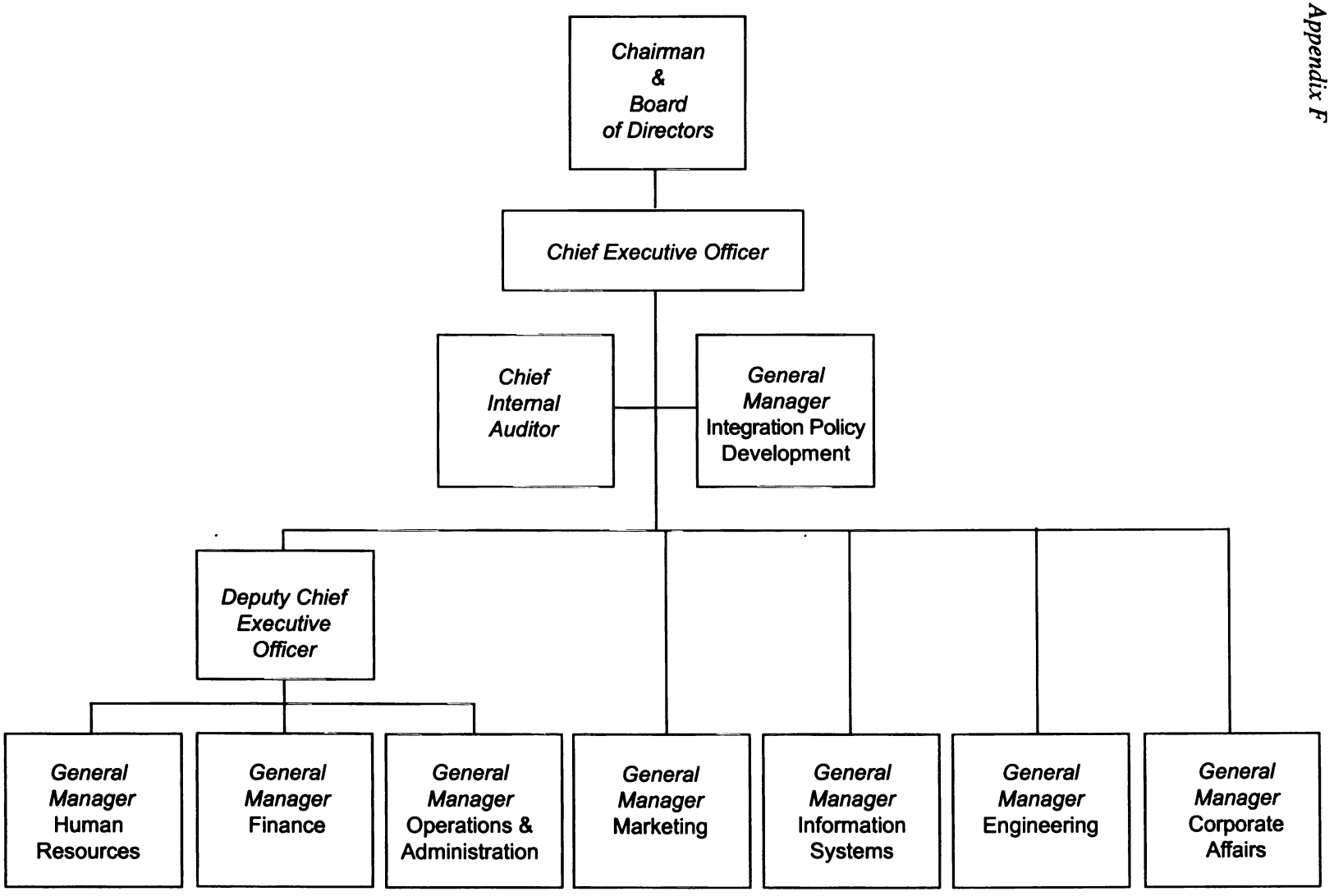

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