

# The Case for a Forensic Audit of Jamaica's Public Debt

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Professor James Petras (Binghamton University) opined during our discussion (Sunday November 6, 2011) on my newly launched internet programme "**Looking Back Looking Forward**" ([www.lookingbacklookingforward.com](http://www.lookingbacklookingforward.com)) (every Sunday at 12 noon) that maybe about 70% of the Jamaican debt is illegitimate.

I have never tried to quantify it myself. It would require a forensic audit which I have been advocating to determine what portion is really illegitimate. But even without an audit, those with just a passing knowledge of how corrupt Jamaica is (**Transparency International** lists Jamaica as one of the most corrupt countries in the world) would not regard Petras' estimation as outrageous.

The following is a list of questionable projects and dealings which need investigation. It is by no means exhaustive, but there is a pattern which suggests recklessness and lack of accountability for the spending of public funds. If only a fraction is corrupt it is considerable in a poor country.

Corruption represents a method of transferring wealth from the poor to the rich or a form of primitive capital accumulation to use Marx's definition. The level of debt (nearly two trillion Jamaican dollars) can be indexed to corruption: every man woman and child is said to be mathematically responsible for about US\$7000 of the debt—a tall order for the 1.2 million people who are living below the poverty line, thirteen per cent who are unemployed, and thousands more who are underemployed.

### **FINSAC**

For obvious reasons we start with the meltdown of the financial sector in 1997 when the PNP government chose to bail out the financial sector and the consequences thereof.

(1) According to economist Dennis Morrison "the cost of the government bail-out through **FINSAC** [Financial Sector Adjustment Company] was estimated at some 40 per cent \* of GDP which was one of the most burdensome at the time." (**Gleaner April**

**5, 2009**). Morrison continues: "In fact, Jamaica's debt ratio, which had fallen to just over 70 per cent of GDP prior to the advent of FINSAC, having come down from as high as 150 per cent in the 1980s, went back up to over 130 per cent in the late 1990s, and has not gone below 100 per cent since then." (**Gleaner April 5 2009**).

\*(Richard Downer (chartered accountant among other things) claims that his research indicated a figure of 66% of GDP. He also made the interesting point that "No bank that acted like a commercial bank failed." (**Examining Bank Failure in Developing Countries Lessons from Jamaica...** Forward by Richard L. Downer CD FCA by **Jennifer A Daley** (SES publication)).

(2) There is currently a Commission of Enquiry into FINSAC's operation (the entity that handled the bailout) but there is no accompanying forensic audit to determine who got how much money and the conditions involved etc. and hence the enquiry is a grand waste of time and public funds in terms of not being able to address the question of illegitimacy and fraud. [This is the point that PJ Patterson misses when he continues to defend the bailout... who got the bailed out? for how much? and why?]

Even without the forensic audit there is enough information coming out of the enquiry to suggest that there was a massive misuse of public funds to cover so-called toxic assets for some entities. [Finance Minister Audley Shaw is not interested in a forensic audit it seems because it would expose persons on both sides of the political divide, not just PNP persons as he knows very well]. Some very fortunate debtors got massive write offs while others lost their shirts. At least two bankers fled to the United States to avoid fraud charges. The bailout resulted in massive borrowing and the poor are still paying for the more than 50% increase in debt.

(3) Incidentally, National Commercial Bank (NCB), which received a bailout, and was then sold to Jamaican billionaire Michael Lee Chin for a song (J\$6 billion), is now reporting profits of over **J\$13 billion!** The government feels no obligation to consider increased taxes. ("NCB's profits up to \$13 billion." Sunday Observer, November 06, 2011 <http://www.jamaicaobserver.com/business/NCB-s-profits-up-to--13-billion#ixzz1dkAUHZgn>)

/[ "Patrick Hylton, group managing director of National Commercial Bank Jamaica, denied any connection between the sale of the bank to Jamaican-Canadian investor Michael Lee-Chin's AIC Limited, and his position as NCB's current boss, at Wednesday's sitting of the FINSAC enquiry." Asked by attorney-at-law for several FINSAC creditors who were victims of the 1990s meltdown, Anthony Levy, whether it would be correct to say that the NCB was "given away", Hylton said he "totally disagreed." Asked what price the bank was sold for, Hylton said that AIC paid about US\$120 million for the 75 per cent of the shares held by FINSAC, valued at some US\$175 million over a 6-8-year period.} <http://www.gleaner.ja.com/gleaner/20110708/business/business4.html>]

## HIGHWAY 2000

(4) **Highway 2000** was a case of technocrats pushing a classic, world-wide method of corruption onto the political directorate (or maybe it was vice versa?) with fantastic claims about economic development which would result. (I would call these technocrats a special breed – unelected but having very powerful connections with the corporate, political and media elite). As to be expected, the tourism moguls welcomed the project as an enhancement (and a great subsidy) of their tourism product. (The late journalist **John Maxwell** called it the 'highway to nowhere'). The promised 'development' never materialized and the highway has cost the public at least **one billion US dollars** and still counting. This would have been a classic example of irresponsible lending given that government guarantees were involved. There was no cost benefit analysis from the perspective of the poor and the working class and who possess no veto power over such projects.

(5) **The Office of the Contractor General (OCG)** has investigated aspects of how the original contract was awarded but makes it plain that it does not have the mandate to make deeper investigations. One is required which goes beyond the mere legality of the contract award process. (**December 2007**. Office of the Contractor General Report on the Investigation Conducted into the Highway 2000 Concession and Administration Agreement Ministry of Transport, Housing Water and Works. *"The Investigation has concluded that the initial complaint raised a series of questions, some of which are outside the mandate of the OCG. The questions, which include consequences of a liquidation of Trans Jamaica Highway to the taxpayers of Jamaica, and the justification for Bouygues to have a monopoly concession, have not been addressed in their entirety in this report."* Etc.)

## PALISADOES HIGHWAY PROJECT

(6) **Palisadoes Highway Project:** In a time of economic crisis the government borrows US\$65 million dollars from the China Exim Bank to undertake an unnecessary road building project. Not counting the environmental cost, it is rather ominous that **China Harbour Engineering Company (CHEC)**, which was elected to carry out the project had been accused of bribing officials in foreign countries in order to get contracts. (See below). Could a similar situation have happened in Jamaica?

""US cable accuses CHEC of being involved in bribery"" Posted on Tue, 08/30/2011 -

09:37 in [Business](#) (Insidethegames): *Hambantota, which is bidding for the 2018 Commonwealth Games, has found itself at the centre of the latest WikiLeaks controversy after it was revealed that the United States Government believed the Chinese were bribing Sri Lankan officials to win contracts linked to the redevelopment of the city. China has been the driving force behind a major infrastructural development phase with an international airport, international port, and railway line being built in Hambantota, which was devastated in 2004 by the tsunami. Phase One of the new Hambantota Port was constructed by the China Harbour Engineering Company (CHEC) at a cost of \$360 million.*

*"It is likely that corruption and political patronage are significant factors playing into the focus on Hambantota," said the cable sent from the US Embassy in Sri Lankan capital Colombo published on WikiLeaks. "Often when Chinese companies win contracts, their success is due in part on their widespread distribution of graft to senior Sri Lankan Government officials. While it is currently unknown to what extent President Mahinda Rajapaksa is involved in Hambantota development, it seems logical that his hand is also out when commercial enterprises, especially the Chinese, jockey for contracts and projects."*

The **OCG** is investigating the process whereby the contract was awarded to **CHEC**. [See findings below by the Auditor General which contradicts the government's claim that CHEC was mandated to generally get road contracts as a part of US\$400 million loan agreement.]

Clifton Yap has written that even if the money was "cheap" there is no way of knowing if the cost of the project was value for money without putting it out to tender. Furthermore says Yap **"As with the People's National Party (PNP) administration, their [JLP] projects are generally ill-conceived, decided on unilaterally, poorly planned, and developed without public consultations or stakeholder input."** ."  
Clifton Yap "That US\$65m Palisadoes Road" Published: Tuesday | April 27, 2011\_  
<http://jamaicagleaner.com/gleaner/20100427/letters/letters1.html>

(8) As for the need to spend US\$65 million it has been suggested by more rational people that all that was required to solve the Palisadoes "problem" (the road leading from Kingston's Norman Manley Airport) was for the purchase of a few front end loaders to remove sand from the road whenever there is a storm.

## JAMAICA DEVELOPMENT INFRASTRUCTURE PROGRAMME (JDIP)

**(9) Currently there is a big controversy surrounding JDIP which involves US\$400 million borrowed from China to repair roads. Not only is the Contractor General investigating alleged irregularities but the Auditor General has released a report raising questions about accountability in the use of the money. For example, J\$100 million earmarked for road repairs was used to refurbish the corporate offices of the National Works Agency (NWA), the government company responsible for road repairs and other building projects).**

As is the practice with other lending nations where money is lent on the condition that it is re-spent as much as possible in the lender country, the repair contract was given to CHEC, without any bidding. The AG's report is replete with accusations of lack of monitoring. The most shocking aspect of the JDIP programme is the J\$800 million cost for building one kilometre of road in the finance minister's constituency. The auditor general is raising questions about how costs were determined. The Auditor General also reports that the Chinese embassy advises that there was no stipulation as to which Chinese construction company should be used for the road projects. A big delegation of JLP government politicians visited China in 2009 and one can only speculate as to what went on during that visit "Auditor general concerned about Christiana Road irregularities." Published: Tuesday November 15, 2011 | 5:49 pm. <http://jamaica-gleaner.com/latest/article.php?id=33245>

(10) To better understand the politics and the potential for corruption in big "development" projects such as highways, dams, laying of oil pipe lines etc. I would recommend "**Confessions of an Economic Hit Man**" by John Perkins. The *Confessions* relate deliberate attempts to hype claims about development benefits as part of the public sell campaign and which usually works in poor countries crying out for development. As John Perkins also claims, development projects are sometimes used as a foreign policy tool to deliberately bankrupt some countries. Perkins worked for an engineering company which was apparently a front for the CIA and not all employees were aware of this. [ The LNG gas project being considered in Jamaica is already riddled with allegations of corruption even though the project has yet to get off the ground]

## AIR JAMAICA

(11) **Air Jamaica** was originally a state enterprise and then privatized with government as a minority partner. According to former prime minister, Bruce Golding, ***"Since its inception in 1969, Air Jamaica has accumulated losses of over US\$1.4 billion or J\$126 billion. In the last 3 years alone, it has incurred losses of US\$337 million or J\$31 billion."*** (February 11, 2010. Statement to Parliament by Hon. Bruce Golding, Prime Minister on the Privatization of Air Jamaica)

Though essentially a private company, the government nevertheless stood guaranty for all the loans and losses of the Airline because of its minority involvement. In other words, lenders would have no need to care whether the company was insolvent or not since government had guaranteed to pay back the loans. [The constitution guarantees that sovereign debt has first claim on the consolidated fund.] The principal owner of Air Jamaica, Gordon Butch Stewart and his Sandals company have benefitted tremendously along with the rest of the tourism industry, even if Air Jamaica lost money. The public debt kept growing in tandem with Air Jamaica losses.

Should there be a special tax on the profitable tourism companies lavishly subsidized from public funds? Should all the loans borrowed be investigated to see who really benefited? The answer is a resounding: yes.

***["Despite the downturn in the economy, Sandals Resorts International experienced one of the best years on record in 2010. Interview with Butch Stewart"***

[http://www.leadersmag.com/issues/2011.1\\_Jan/Hospitality%27s%20Global%20Impact/LEADERS-Gordon-Butch-Stewart-Sandals-Resorts-International.html](http://www.leadersmag.com/issues/2011.1_Jan/Hospitality%27s%20Global%20Impact/LEADERS-Gordon-Butch-Stewart-Sandals-Resorts-International.html)

"Air Jamaica: end of an era 'The little piece of Jamaica that cries' Friday, July 08, 2011 "

***"The story of Air Jamaica's contribution to the economy, on one hand, could be told in soaring figures. At its peak, the airline carried 69 per cent of all persons travelling to Jamaica and 52 per cent of tourists visiting the island. On the other hand, the figures by themselves could not tell the entire story. The airline lost approximately US\$674 million during AJAG's 10 years of operation, representing an annual average loss of US\$67 million"***

Read more: [http://www.jamaicaobserver.com/news/Air-Jamaica--end-of-an-era\\_9161512#ixzz1dkfR1VR0](http://www.jamaicaobserver.com/news/Air-Jamaica--end-of-an-era_9161512#ixzz1dkfR1VR0)

Read more: [http://www.jamaicaobserver.com/news/Air-Jamaica--end-of-an-era\\_9161512#ixzz1dkeofBBt](http://www.jamaicaobserver.com/news/Air-Jamaica--end-of-an-era_9161512#ixzz1dkeofBBt)

## SUGAR COMPANY OF JAMAICA (SCJ)

(12) **Sugar Company of Jamaica (SCJ)**: Many stories over the years indicated poor management; corrupt financial decisions; no involvement or consultation with the workers in the decision making process, and no sooner had the SCJ become “bankrupt” it was re-privatized at great expense to the taxpayer and sold for a song.

**St Aubyn Hill** (another special type of technocrat), was paid nearly 2 million dollars a month for his efforts to get the company sold. It took him quite a while to find a buyer and whether the reasons for the length of time were legitimate or not, he would have been handsomely rewarded for his efforts. The question still remains: can the country afford it?

[Interestingly, while it was publicly known how much Aubyn Hill received for divesting the SCJ, it is not known how much Gerald Lalor and others received for their role in divesting Air Jamaica].

There has been no public accounting as to how the SCJ assets were assessed, so no one knows if the sale price was a fair one or not. It should be also be noted that it was sold to a Chinese company, Complant, and represents an increasing penetration of Chinese capital into the Jamaica economy.

[“Aubyn Hill quits sugar company Published: Wednesday | October 26, 2011  
“The former banker was contracted by SCJ Holdings as CEO in January 2010 after serving as consultant from August 2008. The revelation of his monthly J\$1.9 million salary made headlines, forcing the Government to defend his pay. <http://jamaica-gleaner.com/gleaner/20111026/business/business1.html>]

(13) Example of corruption allegations at the **SCJ**: A letter to the OCG from a concerned citizen:: ***“You will observe that these middle men paid US\$161,860.00 for the four units and sold them to Sugar Company of Jamaica (SCJ) for JA\$31,0M or US\$456,000.00 making US\$294,140.00 profit =182%. This level of profiteering is consistent with the tractors and cane carts you bought recently. Is this not of concern to you. It is to me.”*** . [Office of the Contractor General: Special Report of investigation conducted into the allegations of improper procurement practices at the Sugar Company of Jamaica. Ministry of Agriculture and Fisheries. March 2011].

A forensic audit is required since the Contractor General is only able to scratch the surface of the corruption which exists. This applies as a general rule to all investigations undertaken by the OCG.

(14) **JUTC** losses blamed on corrupt management; lack of worker involvement or consultation in the decision-making process. Bus fares recently increased imposing

greater hardship on the poor and working class. Previous manager Douglas Chambers alleged to have corruptly given himself a contract and made a handsome profit. (Chambers was shot dead at the JUTC plant under suspicious circumstances).

(15) **Cost of world cup cricket.** The Government spent over US\$100 million (J\$7 billion) to host world cup cricket in 2007. There are outstanding issues involving expenditures; lack of accountability as usual. Given the lack of media interest the debt is quietly assumed by the government and passed on to the taxpayer.

## **SANDALS WHITEHOUSE**

(16) Government invests the lion share of approximately US\$120 million to **build Sandals Whitehouse** and sells it to Gordon Butch Stewart for US\$40m which is far less than the construction cost and its real market value. This does not include the literal give away to Stewart of the land on which the hotel is built: sold for J\$ 6million!

The Report of the Office of the Contractor General (OCG) is necessary reading to fully understand how from the very beginning the deal worked in Gorstew's favour even while making complaints about design. [*OCG Media Release: January 19, 2011 "Office of Contractor General Writes to Prime Minister to Recommend Halt of Sale of Sandals Whitehouse Hotel to Gorstew Limited."* Available on *OCG website.*]

Taxpayers are still paying for this government largesse to one of our most subsidized billionaires. ***Socialism for the rich and capitalism for the poor.***

(17) **Virgin Airlines/American Airlines:** high-handed and irregular involvement by the minister of finance (PNP) in the case of Virgin Airlines (investigated by the **OCG**) and the minister of tourism (JLP) in the case of American Airlines (also investigated by the **OCG**). Both Airlines profit handsomely from concessions made to them. Taxpayers pick up the tab while nothing comes of the alleged irregularities. The DPP seems totally disinterested.

(18) **Cuban light bulb scandal;** J\$276 million fraud and money laundering are the charges against PNP MP Kern Spencer – the cost to taxpayers to distribute light bulbs given to the Jamaican people free of cost by the Cuban government.. Investigated by the OCG. Spencer is before the courts but with a very deep pocket he has hired the best lawyers to defend him and who seem to be worth every penny they are paid

(19) UK bridge building company **Mabey and Johnson** confessed that "several million US dollars" were paid to JLP MP Joseph Hibbert as a bribe for getting a bridge building contract. Investigated by the OCG, but the DPP seems disinterested.

(20) **Bunting sweetheart deal.** The finance minister sells government receivables to DBG, a finance company with known PNP connections, which in turns sells these receivables to state entities and makes millions of dollars of profit! Says Bunting according to the Observer: ***"the transaction was not subject to competition"*** because ***"it was DB&G which conceptualised the potential transaction to bailout the Government which was facing a 'significant challenge' in meeting its fiscal target at the time, therefore it would have been unfair for the then administration to put DB&G's idea to tender."*** How patriotic !!! [Bunting denies 'sweetheart deal' Says Contractor General's report does not support defamatory allegations Read more: <http://www.jamaicaobserver.com/business/Bunting-denies--sweetheart-deal-->

(21) **Trafigura:** \$31 million paid to the PNP by Dutch Company Trafigura Beheer apparently to cover its electoral expenses. The Contractor General discovers among other things that though initially there was a contractual agreement with Trafigura Beheer to deliver Nigerian crude oil to Jamaica, at the time the money was paid to the PNP's Colin Campbell (the apparent go-between), the parties were operating without a contract – no bidding having taken place as is required by law. Soon after the “donation” was made public a new company was found to transport the oil at a better price. (OCG Special Report of Investigation Conducted into the Oil Lifting Contracts between the Petroleum Corporation of Jamaica (PCJ) and the Trafigura Beheer. Ministry of Energy and Mining (MEM) Formerly Ministry of Industry, Technology, Energy and Commerce (MITEC) August 2010.)

And as for the previous contracts in 2001 and 2002, the Contractor General reports that they were not in keeping with required government procedure:

“.... the PCJ did not deem the contract award to be one of a “procurement contract” as no contract value was involved, that is, there were no amounts to be paid by the PCJ to the contractor. Instead, the PCJ received an agreed amount, from the contractor, for each barrel of oil that was lifted.

“In this regard, the OCG found that the contract awards did not receive the prior endorsement of the National Contracts Commission (NCC) nor was there any evidence to indicate that Cabinet approval was granted for the award of the oil-lifting contracts.

“The OCG also found that the PCJ did not have a Procurement Committee in place prior to 2006, which is, in and of itself, another breach of the GOJ Procurement rules.” (OCG Report August 2010).

The record is replete with thousands of examples of what appears to be corrupt practices engaged in by both political parties and these have helped to balloon the debt to 120% of GDP.

The editors of the **Observer** , recognizing that there is a limit to how much more the poor and the working class can be taxed to pay for the debt, are calling for imposition of a "Robin Hood Tax" i.e. increasing taxes on the banks. We couldn't agree more, but we advocate a further step: increase taxes on the rich generally including the successful hotel brands such as Sandals.

(" Jamaica should support the Robin Hood Tax Sunday, November 06, 2011  
<http://www.jamaicaobserver.com/editorial/Jamaica-should-support-the-Robin-Hood-Tax2011-11-06T03-20-52#ixzz1dkx5h35V>" [ The Observer is fiercely defensive of its owner Gordon Butch Stewart.]

The aim of a forensic audit is to make people more aware of how corruption blights their social existence. If only 50% of the debt is corrupt, and based on the above it may well be 70%, it lends a moral force to the argument as to why the debt cannot be repaid on the backs of the workers and the poor. It is a tool for negotiating debt repudiation. It points to the need for people control over the decision making process.. The present system can hardly be said to be democratic.

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Campaign for Social and Economic Justice  
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