

Colombian Investment Lessons for Jamaica
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Observer's Monday editorial, entitled "The importance of restoring law and order", noted that "across Kingston, St Catharine and the wider Jamaica there are communities where people of questionable credentials and repute have filled the space vacated by the State and have gained acceptance in dispensing their own brand of justice and largesse. For well over five years, Jamaica has increasingly been regarded by some as a failed or more accurately "failing" state (a notable contribution to the debate being that of former Bank of Nova Scotia CEO Bill Clarke in 2005), as it gradually reached the top of the world charts in murder, and its decades long growth stagnation continued, with a continuing decline in social capital.

At the turn of this century, Columbia was also regarded as a failed or failing state, according to Virgilio Barco Isakson, head of investment promotion agency "Invest in Bogota", speaking at the Private Sector Organisation of Jamaica (PSOJ) seminar, "Beyond Crime And Corruption To Growth: Practical Lessons From Colombia" last Friday. A decade later, in a dramatic turnaround, Columbia is the only Latin American country that HSBC's Michael Geoghegan, head of one of the world's biggest banks, includes in the six countries most likely to take over as the new BRIC's.

Barco notes that "after years of complacency", drug organisations had occupied vast swathes of land, challenged the government with superior military power, and had corrupted the Columbian judicial system and society.

Columbia's situation should sound very familiar to Jamaicans. The government had effectively retreated from much of the country, the local private sector had lost confidence and stopped investing, and there was a massive exodus of Columbians and their capital. The unsurprising consequence was that the country suffered its worst economic crisis in its history.

After the election of new President Alvaro Uribe in 2002, Columbia made a big investment in its military, with a parallel effort in improving its judiciary, accompanied by social programmes.

To get the economy and foreign direct investment going, with the disadvantage of a corporate tax rate of 33 per cent (Mr. Barco described this as "very high" to the amusement of the gathered private sector leaders facing the same rate), Columbia relied on investment incentives within free trade zones. These were not geographically limited, as large companies were also able to set up a free trade

zone on a stand alone basis. Very low tax rates were coupled with "legal stability contracts", committing the government to locking in "investment conditions" to provide foreign investors with a reduction in their perceived risk of investing in Columbia.

Most importantly, the government and private sector collaborated in developing a business plan for each sector, which included an evaluation of the required work force and regulations. These sector groupings were led by the private sector, not the government, and whichever sector had the best business plan got priority in terms of funding.

As a result of these and other measures, foreign investment soared from a low of US\$1.76 billion in 2003 to US\$10.9 billion in 2008, before declining to a still respectable US \$7.2 billion in 2009 as a result of the financial crisis.

According to Barco, a key sign of the turnaround was when Colombian's "started investing first". This was a result of what local Colombian economists called the "Uribe" factor, namely an increasing confidence that the country's political leadership was single mindedly tackling Columbia's crime and violence.

Critically, exports trebled between 2002 and 2009, and GDP growth, which had been flatlining in 2001 and 2002 (well below the Latin American average), began to grow above what in any case was by now a much higher Latin American average.

Between 2002 and 2009, tourism, albeit still largely business travellers, increased sharply from 541,000 to 1.53 million. Over the same period, inflation fell from 8.8 per cent to two per cent, and unemployment fell from 18.2 per cent to a still high 13.2 per cent (a recent uptick was driven by the global recession), with an associated reduction in poverty.

Like Columbia itself, at the beginning of the last decade, Columbia's capital Bogota had a deserved reputation as a lawless city with a high murder rate. Over the past decade, the murder rate has approximately halved to 22.7 per 100,000.

The process of transformation started when Columbia elected a series of honest charismatic and able mayors, notably Antanas Mockus (now the Opposition's presidential candidate) and Enrique Peñalosa. From different political parties, and using unorthodox methods, the two mayors built on the work of their predecessors, turning around one of the world's most dangerous, violent and corrupt capitals into a relatively peaceful city with more caring citizens. Mockus emphasized programmes to improve the culture of citizenship, employing the power of individual and community disapproval in a hearts and minds strategy. Peñalosa emphasized a number of creative public private partnerships in health, education and mass transit. Their impact was recognized in early 2006, when a New York Times article trumpeted that "Bogota is not just for the Brave Anymore".

A trend of political autonomy in local government had allowed Bogota to gain greater control of its finances, allowing improved services and investment in infrastructure. This was combined with programmes to improve citizenship and an "epidemiological" approach to urban violence, treating crime as a disease.

For example, citizens were used to not paying for their utilities. Now, according to Barco, 100% of Bogota's seven million citizens pay for their utilities. In contrast, in a recent Breakfast Club interview, JPS chief executive said that of the 3,000 residents of Tivoli who were using electricity, only 300 were paying customers.

Invest in Bogota is a public private partnership that, according to Barco, would probably not have happened without a crisis. It grew out of a very serious dialogue on how to make the city more competitive, a discussion which got important help from the World Bank, notably their thought that bringing the private and public sector together would "make interesting things happen." The entity, which has only ten people and a US\$1.5 million budget, is staffed by very talented former private sector people who understand business needs. The private sector contributes 50 per cent of its budget, the rest coming from an enlightened local government which has nevertheless given the private sector majority control, allowing continuity when politics change.

According to Barco, the key lesson is that you can't expect to attract investment when things are "fundamentally bad", another way of saying an old truth that more exposure won't help sell a bad product. To attract investment, things have to be improving, creating a "gap" between perception and reality. According to Barco, Columbia's "image was dreadful", but the situation was better than it was being perceived.

Bogota's investment promotion strategy was designed as part of a comprehensive economic vision for greater Bogota, including investment in infrastructure, workforce training, promotion of entrepreneurship, urban renewal, strengthening of the local productive sector, improvement in the quality of life, and the promotion of strategic sectors.

Based on the city's economic vision, Invest in Bogota prioritised four basic strategic objectives, the most important of which was to put Bogota on the map for foreign direct investment in specific, value added, export orientated sectors. Rather than trying to pick winners, they accepted the fact, in the words of Harvard Professor Ricardo Hausmann that "We are doomed to choose". Invest in Bogota focussed on high impact, high potential sectors that allowed for specialisation and the accumulation of knowledge.

Each year they prioritised a short list of sectors. In services, this included the cluster of information technology, business process outsourcing (BPO), and shared services, as well as health and education, and aircraft maintenance. For example,

in 2006, they benchmarked their "offshoring" potential very carefully against market leader Bangalore, estimating a base case of over 73,000 new jobs over ten years, or approximately seven to eight per cent of their existing work force.

A key question they had to answer, particularly for the US market, was "Why on earth would I want to invest in Bogota?". So they started with Spain, who were a little more comfortable and knowledgeable about Columbia. They presented themselves as a regional base to set up in Latin America, targeting key decision makers at the target companies. Three years ago they received 12 medium sized investments from Spain and Latin America as part of a strategy of "quick wins". In year three, they targeted the US, and have now succeeded in attracting ACS and Convergys as part of their "offshoring strategy", thereby generating excitement among the other multinationals in the industry who don't want to be late to the new hot spot.

Jamaica already has ACS as part of a significant offshoring sector in Montego Bay. English speaking Kingston's potential in the BPO area should be of a similar order to Bogota's, whilst untapped investment opportunities also exist in health and education. The key unanswered question is whether the Jamaica government has the will to convincingly tackle crime and violence, a "Golding effect" if you will, similar to that achieved by President Uribe. It is worth noting that President Uribe received very substantial help from the United States.

Oppenheimer's Dr Carl Ross appears to believe this is possible when he compares Golding's current situation to that of Uribe in 2002 in his latest research piece. Ross argues "One has to admire the political gamble of the Golding government. I have seen no previous governments in Jamaica, and very few anywhere, that have taken the political risk that Golding has now chosen. In addition to the fiscal austerity announced in the IMF programme, he is upsetting the decades-long cosy political relationship between these criminal 'dons' and the political class. He is willing to be a one-term prime minister if he can get his country on the right track. If his plan does not work, his political career is over. If it does work, he may become a hero with a lot of political staying power, akin to ... Uribe in Colombia." Time will tell if this assessment is correct.

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