



A GROWTH-INDUCEMENT STRATEGY FOR JAMAICA IN THE SHORT AND MEDIUM TERM

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Planning Institute of Jamaica

A Growth-Inducement Strategy for Jamaica in the Short and Medium Term

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*To the many ordinary Jamaicans who informally communicated to us their view of the significant ways this project could further the **Vision 2030** goal of “Jamaica [becoming] the place of choice to live, work, raise families and do business.”*

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Preface

The Jamaican economy has exhibited a striking and well-documented historical pattern of underperformance in terms of overall growth since the 1970s, despite an evident capacity to generate limited expansion in short spurts based on achievements in particular economic sectors and products. This chronic pattern of underperformance has left in its wake a high level of public debt, unemployment, deterioration in physical infrastructure and in the delivery of social services (such as health, education and the justice system). These inherited conditions underpin significant and persistent levels of poverty as well as the continued existence of marginalized, vulnerable, and volatile communities throughout the country.

The issue of how to achieve sustainable economic growth with social equity therefore remains today as a matter of primary concern. It is central to any consideration of policy and action to address the host of economic and social problems that the country now faces.

This report presents results of the PIOJ's analysis of this issue and specific proposals following therefrom for a strategy to induce economic growth in the short and medium term and in the particular context of the economic situation prevailing today.

The analytical and strategic foundation of the growth-inducement strategy rests fundamentally on our finding that Jamaica's weak performance in terms of economic growth can be explained as the direct consequence of specific, identifiable, and quantifiable conditions operating in the economy and through the process of capital investment. In particular, these conditions are:

- the chronic state of fiscal imbalance
- underutilization of productive capacity
- economic waste of capital
- concentration of capital investment in highly capital-intensive sectors and economic enclaves.

These conditions, in turn, are associated with a number of dysfunctional pathologies and systemic constraints, operating as both cause and effect in a complex mutual interaction with the investment process. At the top of this list, as determined by our assessment based on world-wide surveys done by international agencies, are the following factors:

- crime and violence
- corruption
- taxation
- supply of electricity
- finance, and
- macroeconomic instability.

They represent supply-side factors in the business environment (“external” to firms) which have a significant effect in terms of the cost, risk and uncertainty of business activity.

Other relevant supply-side factors include:

- bureaucracy and regulation
- quality of the labor force,
- quality of infrastructure and
- the foreign trade regime.

Factors related to the “internal” operations of firms, individually or collectively within industries, include:

- intensity of competition,
- financial market development,
- technological readiness,
- business sophistication,
- capacity for innovation.

Viewed from the standpoint of investment and growth, these constraints are considered here to be crucial because, taken together, they determine the prevailing low level (on average) of international competitiveness of the Jamaican economy. They serve, therefore, to limit the capacity of Jamaica-based firms to respond to competitive pressures emanating from the global economy. To this extent, they constitute a key priority for any policy that seeks to address the problem of economic growth and development in the Jamaican economy.

Transforming the complex set of structural and behavioural conditions described here constitutes the fundamental challenge that Jamaica faces at this time. This is the challenge that must be overcome in order to set the country firmly and effectively on a dynamic path to sustained growth with social equity.

The totality and complexity of the conditions involved dictate the need for a coordinated, integrated and holistic approach to designing and implementing economic policy. There is no quick fix or one-shot solution. No single investment project, no matter how “big”, taken by itself, will do. No arbitrary package of incentives, waivers and stimulus will do. The essential shortcoming of such measures, basically designed to compensate for lack of international competitiveness, is that they leave undisturbed, and perhaps serve to reinforce, the prevailing low level of international competitiveness in the economy. Any spurt of growth achieved under such conditions is necessarily limited and unsustainable.

The proposals presented in this report follow from this basic understanding of the Jamaican growth problematic. They constitute a sharply focused and highly structured strategy and corresponding program of actions designed to be implemented in a time-phased manner so as to achieve a turnaround in the economy and build a platform for long-term growth and development. As such, they represent the essential requirements

for making a determined start on the road to self-sustained growth with social equity in Jamaica.

Because of limited resources, everything cannot be done at once. Therefore, the strategy seeks to focus resources and action at those points which are identified as critical to releasing binding constraints and capable of yielding demonstrable and significant results in a short and medium-term context. It also calls for forceful leadership and exercise of political will.

We were not called upon to construct a comprehensive plan for long-term development of the Jamaican economy. However, a detailed road map for such a plan is laid out in *Vision 2030 Jamaica, National Development Plan*. The specific proposals presented here aim to provide a practical vehicle to carry forward that Plan in the short and medium term.

Gladstone A. Hutchinson and Donald J. Harris.
December 16, 2011

Acknowledgements

In the fall of 2010 the Jamaican economy registered its twelfth consecutive quarter of economic decline and was in need of a targeted programme to induce its recovery and growth. The Planning Institute of Jamaica (PIOJ) was charged with developing this programme within the framework of the twenty-seven-months Stand-By-Agreement (SBA) the Country had entered into with the International Monetary Fund (IMF) in February of that year.

The performance of the economy had been generally poor for decades, and it was clear from the outset that any proposed programme would have to be designed with an understanding and sensibility that reached beyond the “wisdom” of conventional thinking and approaches. Accordingly, the paradigm used by the PIOJ for the Growth Inducement Strategy (GIS) for Jamaica presented in this study combines traditional scholarship with public scholarship. Public scholarship is defined in our study as collaborative knowledge-making with, about and for various publics and communities. It was utilised because it grounds traditional academic scholarship in societal issues germane to Jamaica’s current reality, such as justice, equity, democratic inclusiveness and community empowerment, thereby ensuring their influential role in public policy. Together, both forms of scholarship served to achieve a comprehensive and systematic understanding of the constraints to, and the opportunities for, economic growth and development of the Jamaican economy.

This study was carried out in the Growth Secretariat of the PIOJ, headed by Mr. Everton Mcfarlane, Deputy Director General, and reflects collaboration between the departments of the PIOJ, and consultations with a large number of persons in other Ministries, Departments and Agencies (MDA) of the Government of Jamaica, and colleagues representing community, private sector and civil society groups. The project was led by the Director General, Dr. Gladstone Hutchinson, and the lead consultant for the project was economic growth expert Dr. Donald J. Harris, Professor Emeritus of Economics, Stanford University.

The project benefited significantly from the unstinting energy and organizing and coordinating skills of Mrs. Rosemarie Broadbell, Chief Technical Assistant in the Director General’s Secretariat, and from the technical and intellectual insights of PIOJ colleagues including, *inter alia*, Mrs. Claire Bernard, Mrs. Marcia Blake-Hall, Mr. Joseph Cox, Mr. Richard Lumdsen, Ms. Barbara Scott, Mr. James Stewart and Mr. Easton Williams. Sincere gratitude is also acknowledged to the Jamaica Competitiveness Enhancement Programme, funded through a grant from the Inter-American Development Bank (IDB), for providing both technical and financial support that made this project possible.

Lastly, because public scholarship was a critical component of the study paradigm, the PIOJ expresses gratitude to persons from MDA, community and civil society groups, and

the private sector groups, listed below, who graciously met and engaged us in productive discussions on various aspects of the project.

Ministries, Departments and Agencies (MDA)

Cabinet Office (Public Sector Transformation Unit)
Child Development Agency
Development Bank of Jamaica
HEART Trust NTA
Jamaica Business Development Company
Jamaica Constabulary Force
Jamaica Customs
Jamaica Social Investment Fund
JAMPRO
Kingston & St. Andrew Corporation
Ministry of Agriculture
Ministry of Education
Ministry of Energy and Mining
Ministry of Finance and the Public Service
Ministry of Industry, Investment and Commerce
Ministry of National Security
Ministry of Tourism
Ministry of Transportation and Works
Ministry of Water and Housing
Office of the Prime Minister
Office of the Children's Advocate
Petro Caribe Development Fund
Social Development Commission
Spanish Town Math Circuit
St. James Parish Council
Urban Development Corporation
Victims Support Unit

Community and Civil Society Groups

Amy Jacques Parenting Association
Association of Development Agencies
Boys Town
CCYSO/Trench Town
Citizens Security and Justice Programme
Clarendon Parish Development Committee
Community Security Initiative
Corporate Clinic
Council of Voluntary Social Services
Denham Town Benevolent Society
Development Options Ltd
Dispute Resolution Foundation

Downtown Ministers' Fraternal
First Born Basic School
Fletchers Land Management Benevolent Society
Fletchers Land Parenting
Glendevon Golders Citizens Association
Greater August Town Community Development Council
Gregory Park Community Development Committee
HCFA
Hannah Town Community Development Committee
Hillside Farmers Association/Clarendon
Homestead Citizens Association
Information Affair and Crisis Task Force
Jamaica Civil Society Coalition
Jamaica Crime Observatory
Jamaicans for Community Development
Kairon Network
Kingston & St. Andrew Action Forum
Kiwans Club of Downtown Kingston
March Pen/Corletts Road Community
Matthews Lane Development Committee
Newland Citizens Association
North Gully Community/St. James
Operation Friendship
Papine Development Area Committee
Parade Gardens Community Development Committee
Peace Management Initiative
Raymonds Farmers Association/Clarendon
Rotary Club of Kingston and St. Andrew
Second Chance
St. Catherine Ackee Association
St. Catherine CPC
St. Catherine Parish Development Committee
Survivor Police Youth Club/St. James
United Mountain View Parents in Action
Violence Prevention Alliance
Washington Mews Citizens Association
Women's Centre of Jamaica Foundation
Youth Opportunities Unlimited

Private Sector Groups

Alliance of Micro Finance Professionals
American Chamber of Commerce of Jamaica
Ammar & Azar Ltd.
Appliance Traders Ltd.
Bank of Nova Scotia
Cari-Med Ltd.

Citibank N.A. Jamaica Branch
Grace Kennedy Limited.
Jamaica Chamber of Commerce
Jamaica Developers Association
Jamaica Employers Federation
Jamaica Exporters Association
Jamaica Manufacturers Association
Jamaica National Building Society
Jamaica Producers Group
Jamaica Rums Ltd.
Kingston Restoration Company
MSME Alliance
PA Benjamin Manufacturing Company
P.A. Lawson Engineering & Construction Ltd.
Private Sector Organization of Jamaica
Small Business Association of Jamaica

Other

The Loyal Opposition, People's National Party (PNP)
Hugh L. Shearer Trade Union Education Institute
Jamaica Civil Service Association
JVPPSD
Sir Arthur Lewis Institute for Social and Economic Research, UWI
University of Technology

The PIOJ is especially thankful to those organisations that made valuable inputs, contributions and provided support to the collaborative learning on the socio-economic issues informing this project, as reflected in the proposed Community Renewal Programme. They include:

Government Ministries, Departments, and Agencies

Kingston & St. Andrew Corporation
National Housing Trust
Office of the Prime Minister (National Transformation Programme)

Chapter 1

Introduction

1.0 Prologue

1.1 The Growth-Inducement Strategy was prepared through careful socio-economic analysis and a structured approach to public scholarship. The consultation process involved in its preparation is summarized in the Acknowledgements to this document. A draft of the strategy document was submitted to and discussed by Jamaica's Cabinet on three occasions between January and February 2011, and subsequently was publicly released on March 4, 2011 and posted on the PIOJ's web-site. After its public release, the PIOJ organized and hosted a Public Symposium, featuring analysis and critique from expert panelists drawn from the private sector and civil society, as well as commentary from members of the public in attendance. The full presentations are also available on the PIOJ's web-site.

1.2 Subsequent to the Public Symposium, public commentary on the Growth-Inducement Strategy has, by and large, been favourable, with prominent editorials in the large-circulation newspapers endorsing the philosophy and strategy of the Growth-Inducement Strategy, albeit with special emphasis on different aspects (for example, the proposed "Lifestyle Centre for Downtown Kingston"). In addition, various contributors to the printed press and commentators on radio and television have provided broad-based support for the Growth-Inducement Strategy.

1.3 On September 29, 2011 the University of the West Indies (through the Sir Arthur Lewis Institute for Social and Economic Research – SALISES – and the Department of Economics) hosted a public seminar for further critical analysis and discussion of the Growth-Inducement Strategy.

1.4 We hope that continuing public attention and public scholarship are brought to bear on the further development and execution of the strategy, transforming it into a living, organically adaptive instrument for economic and social transformation.

2.0 Epilogue

2.1 Buy-in from the Cabinet for the Growth Strategy was high. In late February 2011, Cabinet granted preliminary approval to the adoption of the Growth-Inducement Strategy as the organizing framework for determining Government's policy priorities over the medium-term beginning with the FY 2011/12 budget. The consensus was that, as far as possible, the GOJ would re-prioritize its expenditures and programmes to incorporate the policy initiatives outlined in the Growth-Inducement Strategy, in order to minimize the

need for “additional fiscal space” and reduce the risks to the credibility of the overall economic programme.

2.2 Our preliminary assessment of FY 2011/2 budget tabled in late April 2011 and early May 2011, is that the GOJ’s budget was prepared based on a FY 2011/12 primary surplus target of 5.2% of GDP. This compares with an initial FY 2011/12 target in the IMF Stand-by Arrangement (SBA) of 6.8% of GDP, and hence, the current year primary balance target represents a relaxation of the initial fiscal target of the central government by 1.6% of GDP. However, we caution against interpreting this as “additional fiscal space” for the purposes of growth inducement as we understand that the adjustment to the primary balance was made in order to accommodate higher expenditures mainly due to: (a) The West Kingston disturbance in May 2011 (b) Emergency and rehabilitation expenditures due to Tropical Storm Nicole, and (c) Legacy costs from divestment operations. Hence, the new primary balance target is largely a “carry-over” from adjustments made to the FY 2010/11 targets.

2.3 Further, it should be noted that major components of the Growth-Inducement Strategy would, in principle, be captured in the FY 2011/12 budget through the operations of public bodies (such as the NWA, FCJ, etc) rather than in the Capital A or B budgets of the central government. In this regard, we understand that the deficit of the “Selected Public Enterprises” (SPEs) for FY 2011/12 is now targeted at approximately ½ % of GDP, which is essentially unchanged from the initial SBA target of 0.6% of GDP. Hence, taking the central government and public bodies together, it is apparent to us that the FY 2011/12 budget does not incorporate much in the way of a net quantitative fiscal stimulus.

2.4 Nevertheless, we are of the view that the FY 2011/12 budget incorporates important growth inducement elements. In particular, we believe that the allocation of expenditure to certain priority areas (such as road construction, among others) will engender significant benefits to a sluggish economy in terms of their direct impacts and also to the extent that they serve to alleviate critical production constraints (such as improving the resilience of the targeted infrastructure and providing other production infrastructure such as factory space).

2.5 Further, we note that substantial work has been done to carefully craft a tax reform package that simplifies the tax system, broadens the tax base and increases compliance. There is still additional work to be done to map out the social and welfare impacts of various tax-reform proposals in order to properly prepare the government to sensitize stakeholders, gain broad-based consensus and implement mitigating measures. It is imperative that this work be expedited so that the tax reform package can be finalized and its implementation begun in the shortest feasible time frame. However, in the interim, firm decisions have been taken with regard to the treatment of certain “nuisance taxes” (such as stamp duty and property transfer tax on estates and financial instruments such as corporate paper and bonds). These are important elements of the “asset mobilization” initiatives outlined in the Growth-Inducement Strategy and these

proposals had widespread agreement across stakeholders in the public and private sectors. Changes to the tax regime in these areas became effective in mid-May 2011.

2.6 The Community Renewal Programme (CRP) is a centrepiece of a holistic growth strategy. There has been substantial progress in the preparatory work for its implementation, notably:

- establishment and full operation of a CRP Secretariat housed at the PIOJ;
- selection of the 100 most volatile and vulnerable communities targeted for intervention over the ten-year life of the project;
- identification of a funding envelope for the life of the project;
- initial allocation of approximately \$3.9 billion in FY 2011/12 for the execution of CRP projects.

2.7 In sum, we are encouraged by developments leading to the preparation and adoption of the growth strategy and the early signs relating to implementation. In particular:

1. The PIOJ has prepared, disseminated and received broad-based stakeholder buy-in for a Growth-Inducement Strategy for the Short and Medium Term, which is fully aligned with Vision 2030 while addressing existing social and economic conditions.
2. The Growth-Inducement Strategy was prepared utilizing careful economic analysis and focused public scholarship through extensive and broad-based consultations within the public and private sectors, including key civil society groups and NGOs.
3. A highlight of the stakeholder engagement process was the hosting of a Public Symposium, which provided reactions indicating general support for the Growth-Inducement Strategy, even while highlighting areas of risk which require continuous monitoring and further analysis.
4. Important elements of the Growth-Inducement Strategy have been incorporated into the FY 2011/12 budget, notwithstanding continued fiscal constraints inherent in the need to maintain the credibility of the GOJ's economic programme agreed under the IMF SBA.

Chapter 2

Summary

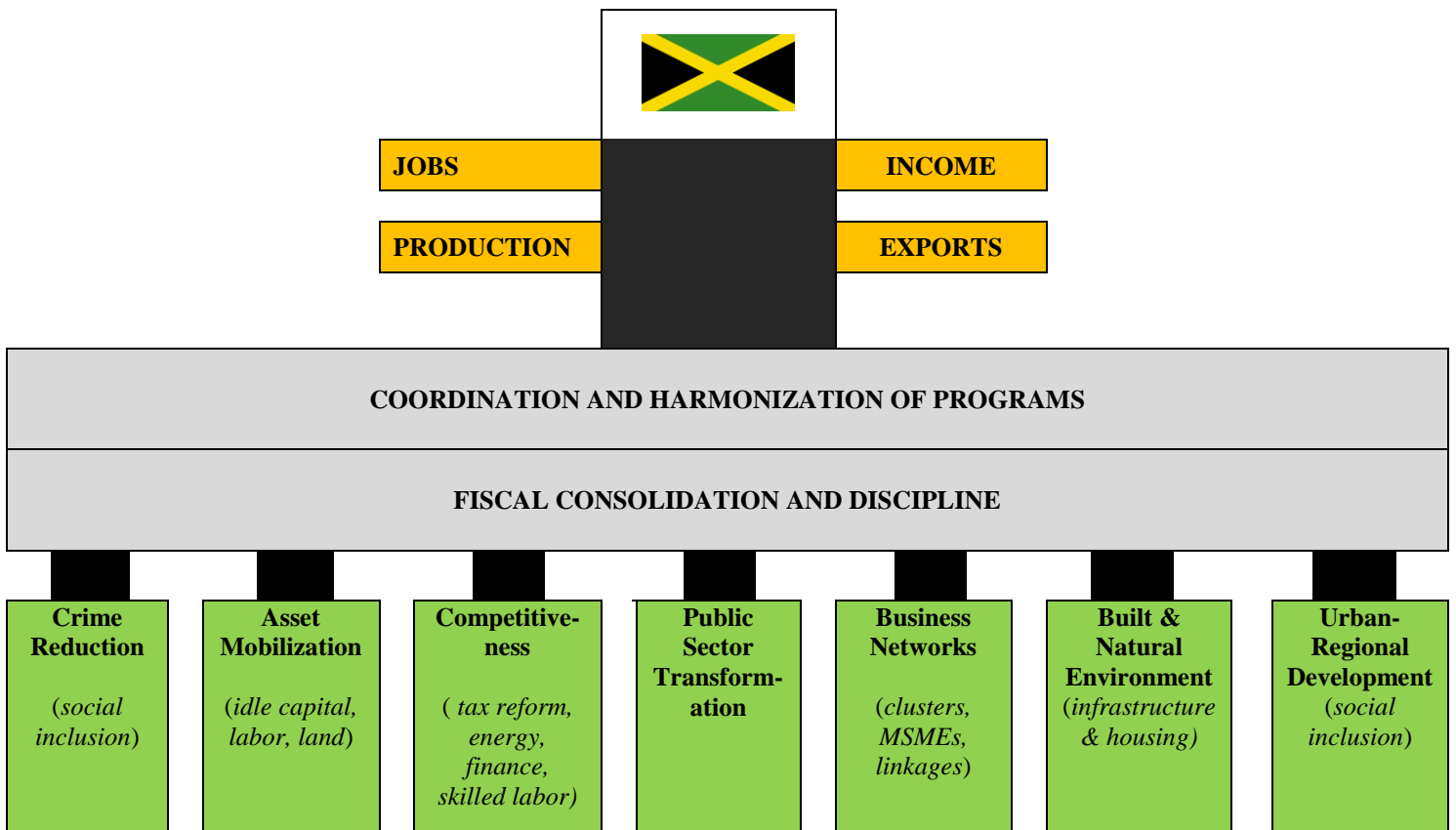
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GUIDING PRINCIPLES

- *Unleash entrepreneurial dynamism by unlocking latent wealth tied up in idle assets*
- *Infrastructure investments as catalyst for job creation through strengthening resiliency of the built and natural environment*
- *Build an innovative & competitive modern economy of big and small firms by strengthening business networks and removing supply-side constraints*
- *Modernize and improve the efficiency of government*
- *Social inclusion through community renewal, expanded self-agency and equity*
- *Proactive partnership between government and private sector*

Figure 2.1 STRATEGIC FRAMEWORK



1.0 The Economic Situation Today

1.1 The Jamaican economy has been in a chronic state of near stagnation since the 1970s. During that time, there have been fits and starts, but no demonstrated capacity of the economy to sustain forward movement. The deadweight of that history now hangs heavily over the present. The process of awakening and recovery from this state of inertia is a difficult one that will take time. It requires a systematic approach to designing and implementing integrated policy solutions aimed to modernize and transform the economy so as to meet the challenges of operating in a dynamic, competitive world where the country has lost ground relative to others that it led or equalled some 50 years ago. It also requires determined and forceful leadership.

1.2 The basic objective of such policy is, through proactive partnership between government and the private sector, to build and sustain an enabling environment for creative and enterprising actors (individuals and firms) to seize emerging opportunities for value-creation that link local competitive advantages to rapidly changing conditions of global competition. For this purpose, there is no magic bullet, and no quick fix. We therefore reject, in principle, the popular notion that one or another single “big project” or grab bag of randomly chosen projects, or addressing this or that favourite “critical illness” viewed in isolation, or a system of tax waivers and incentives geared to compensate for lack of international competitiveness, will magically produce meaningful and sustainable economic growth and development.

1.3 At the macroeconomic level, a start has already been made, beginning with the recent successful debt exchange, to lay the initial groundwork for mounting a broad-based economic recovery, albeit based on a fragile financial stability that requires gains on the production side for it to take hold. It is now time to build on this start. The Growth-Inducement Strategy presented here aims to do just that.

1.4 In preparing this report, the singular objective has been to analyze the current state of the economy and, on this basis, to develop recommendations for policy and action to induce economic growth, starting with the upcoming budget process for the new fiscal year 2011/12 and going forward into the medium-term 2012/2014. We were not called upon to construct a plan for long-term development of the economy. However, a detailed road map for such a plan is laid out in the *Vision 2030, Jamaica National Development Plan*. That Plan also states, in bold relief, the aspirational goals firmly expressed by the Jamaican people in direct consultations held throughout all sectors and regions of the country. The specific proposals presented here aim to provide a practical vehicle to carry forward that Plan in the short and medium term.

2.0 Constraints and Opportunities

2.1 On the basis of careful assessment of the current situation in the Jamaican economy, this report presents a strategic framework and a structured programme of actions designed to achieve a turnaround in the economy and build a platform and momentum for medium-term growth. In essence, it captures the reality of the present

moment which demands re-orienting our economic policy towards a sharpened focus on enhancing growth as the necessary basis for realizing sustained improvements in the social well-being of citizens, consistent with the goals of *Vision 2030*.

2.2 The strategy recognizes the binding constraints that the economy now faces, not the least of which come from tight and restrictive conditionalities of the IMF programme. However, it simultaneously appreciates and exploits unique opportunities arising from the current situation which have combined to create important avenues for economic recovery.

2.3 Specifically, ongoing fiscal consolidation and improvements in budgetary management have resulted in significant reduction in the interest yield on financial instruments offered by government and BOJ, hence in the cost of government financing activities. This, in turn, has forced private capital into a search for new opportunities to earn competitive returns. The ongoing recession has also created significant liquidity in the portfolio of development banks as they experience a drop-off in demand for funds to support traditional venture economic activities, thus similarly forcing them into identifying new ways and economic activities for creating value.

2.4 Hence, an economic stimulus and recovery strategy that is aimed at facilitating increased private-sector investment in real sector activities, and development bank financing partnership, could provide a rich vein for economic recovery without excessive new demands for central government support either in finances or through fiscal space.

2.5 At its core, the strategy recognizes a basic fact, i.e. that there exists a sizeable pool of latently available and potentially productive assets - financial assets, physical capital, buildings, labour, and land - that currently lie fallow, dormant, and/or underutilized and/or wasted. There also exists throughout the economy, in big, medium, and small businesses, entrepreneurial talent ready to act to bring these assets to fruition in productive activities. Foreign investors and diaspora partners have also shown an active interest. In some widely reported cases, creative moves in this direction are already being made in various sectors of the economy, as is evident, for instance, in a recent run of nine successful IPOs (with ten more expected in 2011) and in the revival of the real estate market in downtown Kingston. The strategy seeks to strengthen and accelerate these positive developments by setting in place the necessary support framework to mobilize potentially productive assets and unleash entrepreneurial dynamism.

2.6 This dynamic combination of factors constitutes a solid base on which to begin to build a platform for growth. However, there are significant constraints, real and perceived, which stand in the way of realizing this potential. Of these, the single most important is the cost of crime. It is estimated to cost the economy between 5 and 7 per cent in gross output. A systematic approach to crime reduction is being taken by Government, with noticeable gains now being realized. Ongoing actions and plans now in place should yield further gains, hence advance further towards normalization of criminality and, thereby, enhance the climate for conduct of business as well as the daily life of citizens. In this context, the proposed Community Renewal Programme is

expected to provide an essential antidote to the cancer of crime by offering positive alternatives to illegal activity in one hundred targeted communities throughout the island. Combined with other proposed measures for urban-regional development and strengthening the capacity of MSMEs, these efforts serve also to meet the need for levelling the playing field, broadening participation in the growth process, and combating the social marginalization that affects many of our citizens.

3.0 Understanding the Fundamental Constraints

3.1 In developing a growth-inducement strategy for Jamaica the central problem to be confronted, conceptually and strategically, is the supposed paradox of a high investment rate (as a % of GDP) and low growth rate, which has characterized Jamaica's economic performance since the 1970s. The analytical and strategic foundation of the growth-inducement strategy rests fundamentally on the notion that this apparent "low growth-high investment puzzle" is the consequence of specific conditions operating in the economy through the investment process and in combination with a number of dysfunctional pathologies and systemic constraints.

3.2 In particular, our analysis indicates that Jamaica's low-growth high-investment puzzle is explained by the following set of conditions:

- (a) chronic state of fiscal imbalance
- (b) underutilization of productive capacity
- (c) economic waste of capital
- (d) unbalanced sectoral structure of the economy, with high investment rates in capital intensive and enclave sectors.

The formal analysis of these determinant conditions underlying Jamaica's growth puzzle is set out in Chapter 7 of this report.

3.3 Analysis of the conditions underlying Jamaica's poor growth performance was complemented by a careful review of recent diagnostic studies of Jamaica's competitiveness and business environment (see Chapter 8), which systematically identified and ranked the key supply-side constraints to growth in the Jamaican economy as follows:

- Crime and violence
- Corruption
- Taxation
- Electricity
- Finance
- Macroeconomic instability

This listing of key constraints displays factors that are "external" to the individual firm and have a significant impact on all firms, in terms of the cost, risk, and uncertainty of

doing business. Government must address these constraints by adopting a range of instruments available to it through its roles in monetary and fiscal management, economic regulation, delivery of public services (security, health, education, training, information dissemination) and provision of physical infrastructure.

3.4 In addition, our analysis of competitiveness factors and the business environment showed that the weak competitiveness of the productive sector is also a result of the failure to address supply-side factors “internal” to the firm, the most important of which are:

- Goods market efficiency
- Labour market efficiency
- Financial market development
- Technological readiness
- Business sophistication
- Innovation

These “firm level” supply factors are largely within the sphere of influence of the individual firm, or collectively within an industry.

3.5 Taken together, these conditions reflect and re-emphasize the well-known fact that there is an organic interdependence between the private sector’s role as the main engine of the growth process and the state’s role as an enabler. Moreover, to the extent that firm-level deficiencies reflect market failures, government policy can play a constructive role by sponsoring institutional arrangements to correct such failures and helping to build entrepreneurial capacity and dynamism within domestic firms.

3.6 Table 2.1 outlines the overall policy framework following from this analysis, in terms of the key indicators (“gaps”) that the strategy seeks to address, the diagnosis of contributing factors, and the corrective strategies to be adopted.

**Table 2.1. The Policy Framework:
A Mapping of Gap Indicators, Contributing Factors and Corrective Strategies**

Gap Indicators	Contributing Factors	Corrective Strategies
Fiscal Gap (“Debt Overhang”)	Lack of adequate fiscal governance.	Fiscal consolidation and governance reform; fiscal expenditure control; broad-based tax reform.
Capacity Utilization Gap (“Underutilization of Productive Capacity”)	(1) Supply-side: Deficiencies and distortions in the existing structure of economic incentives (risks, rewards, costs, externalities) that drive entrepreneurial decision-making; poor business environment, including the effects of crime; internal management, resigned preferences and rational myopia on the part of entrepreneurs. (2) Demand-side: Weakness in international competitiveness; resigned preferences and rational myopia on the part of domestic consumers/workers; global demand conditions.	Improving the business environment; broad-based tax reform, including elimination of “nuisance taxes”; asset mobilization; entrepreneurial development, business management and innovation (development bank- and venture-capital financing, business networks, clusters); social inclusion (crime reduction, community development and empowerment for self-agency, rural-urban development); fiscal expenditure re-prioritization towards core services (infrastructure, transport & logistics, energy, finance, communications, and security); education, training and certification of the labour force; research and development; macroeconomic stability.
Capital Efficiency Gap (“Economic Waste of Capital”)	(1) Excessive construction costs due to poor quality of construction work, costs of providing security on site, kickbacks of various sorts from contractors to off-site agents, excessive post-construction costs of repair and maintenance due to abnormal “wear and tear” (whether from neglect or actual use), and cost of security (“protection”) for current operation. (2) Reduced productivity of private capital due to inadequate and/or poor quality public capital (infrastructure, transport). (3) Reduced productivity of both private and public capital due to excessive vulnerability to natural hazards (low resilience of the built and natural environments).	Improving the business environment; fiscal expenditure re-prioritization; infrastructure investments to improve the resilience of the built and natural environments; improvement of government contracting, procurement and project management.
Sectoral Efficiency Gap (“Unbalanced Sectoral Structure of Production”)	High rate of investment in capital intensive sectors accounting for a small share of GDP or of employment (Bauxite & Alumina; Transport, Storage & Communications) and sectors with low domestic linkages (Tourism). Related to the structure of incentives (e.g. tax incentives for export enclaves) or government priorities (incentives for private investment in infrastructure to achieve investment objectives).	Incentive reform, including tax reform; improving domestic linkages; promotion of the business-network model; development of a logistics hub; build-out of regional ICT centres

Source: Compiled by the PIOJ

4.0 Components of the Growth-Inducement Strategy

4.1 Operating within this strategic and programmatic framework, the following elements are proposed as essential components of the Growth-Inducement Strategy, to be implemented in a time-phased manner during the short and medium term.

1. Asset Mobilization. Undertake a systematic programme of tax reform as the linchpin of the effort to unlock latent wealth tied up in potentially productive assets and promote entrepreneurial dynamism: remove distortionary taxes; simplify the tax code; review the external tariff structure; introduce new mechanisms for collateralizing assets (physical capital, financial assets, and land); package and privatize government-owned assets.
2. Build international competitiveness by frontally addressing costs of production: accelerate the National Energy Policy Action Plan as an urgent priority and a potential game-changer; continue ongoing efforts to lower cost of capital and improve transmission to the productive sector; improve productivity of the workforce by ramping up training and labour certification; promote technical innovation (e.g. greenhouse agriculture, hydroponics, tissue culture) through research and development.
3. Exploit the full potential of the business-network model to promote synergies within and among targeted clusters of economic activity, reduce transaction costs and realize economies of scale: build and strengthen value-chain linkages, backward and forward, among firms (e.g. business incubator network; linkages between tourism, agriculture, agro-processing, and local services (health, sports, food, crafts, entertainment)); promote emergence of new clusters of activity based on a logistics hub. Immediate gains for increased employment and export earnings are expected to come from front-loaded measures to expand ICT sites.
4. Protect and strengthen the built environment. Severe and costly damage (in treasure and human life) is perennially inflicted on Jamaica by hazards arising from both natural and man-made causes, recent experience with tropical storm Nicole being only the latest example. Opportunities now exist to simultaneously reduce such costs and create jobs, by redirecting resources within existing fiscal constraints, through “public works”: infrastructure maintenance and improvement; housing construction.
5. Social inclusion. Spearhead the drive for economic growth with an immediate and concerted effort to ramp up the Community Renewal Programme to unlock creativity and entrepreneurship in targeted communities throughout the island as a foundation for organic and sustained development of such communities and as a positive alternative to illegal options (hence, as an antidote to crime). In combination with other local and regional initiatives by government and private sector working in partnership (e.g. Downtown Kingston Redevelopment) and a strengthened programme of on-lending to MSMEs, provide thereby an holistic and integrated

programme of social inclusion that levels the playing field, broadens the base of participation in the growth process, builds confidence, and allows buy-in by stakeholders.

6. Public sector transformation. Adopt a new role for government. At present, government is widely perceived to be “part of the problem”. In fact, government is beset with inter-agency coordination problems and, by its own actions, creates market distortions, allocative inefficiencies, avenues for rent-seeking and corruption. Now engaged in a contractionary mode, government should seek to pull back to performing well its core functions, efficiently delivering services to the public and acting, not just to facilitate, but also to become a proactive partner with the private sector.

4.2 Specific components of the growth-inducement strategy and corresponding agenda items are listed in the Growth Strategy Matrix (Table 2.2). Some of these items are further highlighted in Table 2.3. Details of the agenda for public sector transformation are laid out in Part IV.J.

5.0 From Strategy to Implementation

5.1 In total, this strategy is comprehensive in scope, highly focused in its targets, rooted in local (national) initiatives and effort, and eminently practical and relevant. It effectively deploys limited financial resources in a tight budget scenario while calling for forceful leadership and exercise of political will. It is a timely and doable strategy.

5.2 Several features of this proposed strategy are worth emphasizing:

- First, this is not a “crash programme.” We seek to place in the forefront a strategic framework that gives coherence, focus and direction to the growth-inducement strategy (see above, Figure 2.1).
- Second, because of limited resources, everything cannot be done at once. It is therefore necessary to focus resources and action at those points which are identified as critical to releasing binding constraints on economic growth and capable of yielding demonstrable and significant results in a short and medium-term context.
- Third, it is important to distinguish two phases of the strategy, i.e. measures that are intended to take effect in the short term, and those that are designed for the medium-term. All measures are expected to be brought on-stream within a three-year horizon and be fully integrated with the three-year budget cycle of Government (Medium Term Expenditure Framework).
- Fourth, because of the complex structure and time-phasing of the overall programme and interdependence among its component parts, there is a clear need

for coordination and monitoring of performance by agencies responsible for different components to ensure consistency and continuity in implementation. Forceful leadership will be required to drive this process so as to achieve successful results.

Table 2.2. Growth Strategy Matrix

Strategic Focus	Agenda		Implementation Schedule		Agency	Funding Source
			Short-term	Medium-term		
1. Social Inclusion	Community Renewal Program (CRP); 100 targeted communities throughout Jamaica		√	√	PIOJ	various
2. Asset Mobilization	Asset Class	Agenda Item				
	Financial	Loan portability	√		MOF	
		Secured transactions		√	MOF	
		Credit Bureau	√		MOF	
		Jamaica Mortgage Bank	√	√	DBJ	
		Venture Capital Fund	√	√	DBJ	
	Real Property (land)	Land registration and title	√		MOF/LAMP	
		Probate & land transfer	√		MOF	
		Real Estate Investment Trust		√	MOF	
Government Property	Sugar industry privatization	√		DBJ		
	Jamalco divestment	√		DBJ		
3. Competitiveness	Program	Agenda Item				
	Tax Policy Reform	Tariff structure review	√	√	MOF	
		Tax waiver reform	√	√	MOF	
		Consolidate statutory deductions	√		MOF	
	Energy	National Energy Policy Action Plan	√	√	MEM/OUR	
		Net metering/net billing	√	√	MEM/OUR	
	Manufacture	Industry Modernization Program; factory space; GOJ procurement	√	√	MIIC/JMA	
	Agriculture	Diversify, modernize traditional farming; PMOs; greenhouses	√	√	MAF/RADA	DBJ/PC
	Exports	NES - Implementation Plan	√	√	MIIC/JEA	
Human Resources	Training, certification	√	√	ML/ME/HEART		
4. Business Networks	Sector	Agenda Item				
	Tourism & other services	Health/medical/heritage tourism		√	MT/JAMPRO	
		Sports	√	√	JAMPRO	
		Entertainment, crafts, food, attractions	√	√	JAMPRO JBDC	
	Government	Public sector procurement	√	√	MOF	
	ICT	Regional ICT centers	√	√	JAMPRO	
	Logistics Hub	Logistics infrastructure - initial phase	√	√	MTW	
	MSMEs	Capacity building; 5-yr tax holiday; Venture Capital Network; Technology Park	√	√	JBDC/HEART	DBJ/PC
5. Built & Natural Environment	Sector	Agenda Item				
	Infrastructure	Jamaica Development Infrastructure Program	√	√	MTW	MTW
		Negril Beach Restoration	√		MTW	MTW
	Housing	Various projects, island-wide	√	√	MWH/NHT	MWH/NHT
6. Urban-Regional Development	Program	Agenda Item				
	Community Renewal Programme	100 targeted communities	√	√	PIOJ	
	Development Projects	Downtown Kingston Redevelopment	√	√	Private Sector/UDC/ KSAC	
		West Kingston Commercial Lifestyles Center	√	√	MTW	MTW
		Logistics infrastructure - initial phase	√	√	UDC/TPDCo	
		Port of Falmouth	√		UDC	
Montego Bay Convention Centre	√					
7. Public Sector Transformation	Public Sector Transformation	See Part IV.J for details.	√	√	OPM, MOF	

Source: Compiled by the PIOJ

Table 2.3. Highlighted Growth Projects

Programme/Project	Cost (J\$Million)	Source of Funds	Agency
1a. Short-term Growth Stimulus			
NWA - Priority Level 1	3,292.66	MTW	MTW
NWA - Priority Level 2	5,703.76	MTW	MTW
Farm Roads	3,883.00	MTW	RADA
Community Renewal Program	1,277.00	DBJ, PetroCaribe	Various
Micro-business finance & capacity building	250.00	DBJ	DBJ, JBDC
<i>Total Cost</i>	<i>14,406.42</i>		
1b. Other related development projects			
Downtown Kingston Redevelopment		Private Sector	UDC, KSAC
West Kingston Commercial Lifestyles Center		Private Sector	UDC, KSAC
Regional ICT Centers			JAMPRO
Logistics infrastructure - initial phase			MTW
Port of Falmouth			UDC/TPDCo
Montego Bay Convention Centre			UDC
Negril Beach Restoration			MTW
Housing			MWH/NHT
2a. Unlocking latent wealth in idle assets			
Loan portability			MOF
Secured transactions			MOF
Credit Bureau			MOF
Probate & land transfer			MOF
Land registration & title			MOF
Consolidate statutory deductions			MOF
2b. Privatization of government property			
Sugar industry privatization			DBJ
Jamalco divestment			DBJ
Jamaica Mortgage Bank			DBJ
2c. Other related projects			
Labor force training & certification			ML/ME/HEART
Net metering/net billing			MEM, OUR
3. Medium term projects			
Tax policy reform			MOF
National Energy Policy Action Plan			MEM, OUR
Public Sector Transformation			OPM, MOF

Source: Compiled by the PIOJ

6.0 Short-Term Growth Stimulus

6.1 Within the overall Growth-Inducement Strategy framework outlined above, we isolate for analysis specific projects and activities which are expected to provide the basis for an immediate stimulus to economic growth, serve to improve the near-term credibility of the Government's economic programme, and engender improved economic conditions for the implementation of a comprehensive reform package over the medium-term. Specifically, we identify a package of public works and social inclusion projects aimed at achieving the following outcomes:

- enhance the resilience of the built and natural environment and rehabilitate farm roads¹
- accelerate implementation of the Community Renewal Programme (CRP)
- release latent entrepreneurial activity of Micro, Small and Medium Enterprises (MSMEs) through renewed lending from the Development Bank of Jamaica (DBJ).

6.2 Some of these projects are expected to be implemented through the NWA's road improvement programme (JDIP), the farm roads repair programme under the Rural Agricultural Development Authority (RADA), community-based infrastructure programmes and social intervention activities by various agencies including, among others, the Jamaica Social Investment Fund, the Ministries of National Security, Health, Youth and Water & Housing, the Social Development Commission (SDC) and the DBJ. Appendix 2A provides details of the targeted projects.

6.3 The projected growth-impact of these projects is presented in the next section. The projections provide a direct measure of the multiplier effect of the injection of expenditure on each project as that expenditure works its way through the productive structure of the economy, creating jobs for workers, demand for products, sales by business firms, and revenue for government. These projections do not take into account the likely impact from currently ongoing government infrastructure projects or from other development projects being planned or implemented by various Ministries. Moreover, no account is taken of government proposals and plans for housing construction that are likely to come on-stream during FY2010/11, quantitative data for which are not available at this time. Additional stimulus is expected to come from all of those efforts.

6.4 It must be noted also that the strategy includes a range of initiatives targeted to improve the environment for doing business and to enhance the dynamic capacity of the economy, involving changes in rules, regulations, and various tax items, as well as crime reduction. These initiatives are expected to have a significant positive effect on business decisions, both from their direct impact on costs of doing business and from signalling a new and favourable direction of public policy. This effect, though measurable through

¹ The main areas recommended by the Office of Disaster Preparedness and Emergency Management (ODPEM) to be targeted for comprehensive enhancement of the built and natural environment in a longer term framework are outlined in Part IV.F of this report.

further study, is not included in the impact analysis, but must be considered to augment the projected growth-impact reported here.

7.0 Impact Analysis of Short-Term Growth Stimulus

7.1 The overall projected growth-impacts of the proposed short-term growth measures are summarized in Tables 2.4 and 2.5 below. Appendix 2B presents details of the projected employment and/or regional impacts. The methodology of the impact analysis is described in Appendix 2C.

Table 2.4 One-year Growth Impact of Short-term Growth-Strategy Components

Projects	Expenditure a (J\$ million)	Additional One-year Growth (% Change in GDP at constant prices)	
		Lower bound	Upper bound
NWA - Priority Level 1 (PL 1) b	3,292.66	0.34	0.72
NWA - Priority Level 2 (PL2) c	5,703.76	0.59	1.24
RADA Farm Roads	3,883.00	0.46	0.85
Enhanced CRP (various agencies)	1,277.00	0.16	0.27
DBJ Micro Loans	250.00	0.03	0.05
Total	14,406.42	1.58	3.13

a For NWA and RADA projects, the expenditures do not necessarily reflect the total project costs but rather the component of final demand expenditure accounted for in the projection period.

b NWA-PL1 projects are those projects which have been targeted for implementation in FY2011/12, but for which the fiscal space was uncertain.

c NWA-PL2 projects are those projects that were initially targeted for implementation after FY 2011/12. The accelerated implementation of these projects is being recommended.

Source: Compiled by the PIOJ

6.2 Overall, the aggressive front-loading and implementation of the specified short-term growth projects could increase real GDP growth by 1.6 - 3.1 percentage points above a baseline projection (by PIOJ) of 2.1% for 2011.² This implies that instead of a projected 2.1% real GDP growth in 2011, these projects could induce increased real growth to between 3.7% and 5.2%. This boost in growth would come from a total expenditure of J\$14.4 billion, amounting to about 1% of current GDP.

6.3 The improvement in growth performance would also have positive benefits for poverty_reduction and social inclusion. Under the baseline scenario of 2.1% real growth, the poverty rate in 2011 is projected to be in the range of 16.5% -18.1%, representing a

² This baseline projection is subject to further review by PIOJ on the basis of incoming data on current economic performance.

decline of 2.0 - 2.2 percentage points compared with 2010.³ This baseline projection is predicated on the following assumptions:

- 1) **Real GDP:** Real GDP is projected to grow by 2.1% during FY2011/12, driven mainly by Mining & Quarrying, Hotels & Restaurants, Electricity & Water Supply, and Agriculture, Forestry & Fishing.
- 2) **Employment:** Total employment level is projected to increase by 1.5 per cent; this increase is associated with expected growth in the following industries: Agriculture, Forestry & Fishing, Wholesale & Retail Trade, Repair and Installation of Machinery, all of which are labour-intensive industries.
- 3) **Remittance:** Remittance is projected to increase as the global economy continues to record economic growth. Economic activities are also expected to improve in Jamaica's main source of remittance, the USA.
- 4) **Pension:** The increase in pension benefits from NIS (initiated in July 2010 and paid in December 2010), in addition to the announced increase in government workers' pension, will positively impact disposable income and, thus, assist in reducing poverty in an age group (age 60 and over) where it is most prevalent.

6.4 Under the improved growth scenario, the higher growth rates are projected to further reduce poverty rates to a range of 14.8%-16.4% (assuming a 3.7% growth rate) and 12.4% - 14.6% (assuming a 5.2% growth rate).

6.5 The short-term growth projects are also projected to increase tax revenues, based on the increased value-added generated under the improved growth scenario. Table 2.5 shows the amounts of the projected increases in value-added and tax revenues.

Table 2.5. Increased Value-Added & Tax Revenue Generated by Short-Term Growth Projects

(J\$ million)

Projects	Increment in Real Value-Added	
	Lower Bound	Upper Bound
NWA - PL1	4,124.0	8,626.8
NWA - PL2	7,143.8	14,943.9
Farm Roads	5,497.7	10,171.3
CRP	1,913.9	3,214.7
Micro Credit	390.8	655.0
Total Value-Added	19,070.2	37,611.7
Tax Revenue (at 23.6%)	4,495.9	8,867.2

Source: Compiled by the PIOJ

³ Poverty rates are measured as the head-count i.e. the proportion of the population below the poverty line.

Appendix 2A

Details of Targeted Projects

Table 2A.1. NWA Projects Tentatively Budgeted for 2011/12 (NWA Priority Level 1)*				
Project	Timeline	Expenditure	Direct Job Creation	Aim
	Date	J\$ Million	persons/month	
IDB 2026 TIRP Scotts Cove – Belmont	Apr/2011 to Feb/2012	300.0	30 - 40	Improve travel time along the corridor; reduce vehicle operating costs.
IDB 2026 TIRP Sheffield – Negril	Jun/2011 to Sep/2012	515.4	50 - 60	Improve travel time along the corridor; reduce vehicle operating costs. Improve drainage.
JDIP - N. Mandela Highway Improvement Project	Jun/2011 to Dec/2013	..	80	Improve travel time along the corridor; reduce vehicle operating costs. Raise road and improve drainage.
JDIP - Westmoreland Bridge Reconstruction	..	..	40	Re-establish direct access from Aqualta Vale to Richmond, St. Mary.
JDIP - Scheme Road rehabilitation	Feb/2011 to Mar/2013	429.5	90	Improve roads; reduce risk of localised flooding; reduce vehicle operating cost.
JDIP - Fairview Housing Scheme Drainage Plan	..	1,300.0	60	Reduce risk of flooding in this community.
JDIP - Ocho Rios Road and Drainage Improvement	Feb/2011 to Feb/2012	544.0	60	Improve travel time along the corridor; reduce vehicle operating costs. Improve drainage.
CDB - Tropical Storm Nicole Rehabilitation	Apr/2011 to Mar/2012	2,319.3	300	Reduce risk of flooding in communities islandwide.
IDB 2026 TIRP - Big Pond/Old Harbour Drainage Improvement	Aug/2011 to Feb/2013	515.4	30	Reduce the risk of flooding in the communities of Barton, Colbeck, Old Harbour and Old Harbour Bay.

* NWA-PL1 projects are those projects which have been targeted for implementation in FY2011/12, but for which the fiscal space was uncertain.

Source: The National Works Agency

Table 2A.2. NWA Projects To be Fast-Tracked to FY 2011/12 (NWA Priority Level 2)*

Project	Initial Timeline	Expenditure	Direct Job Creation	Aim
	Date	J\$ Million	persons/month	
OPEC Phase 2 May Pen - Trout Hall	Apr/2012 to Jul/2015	4,037.00	150	Improve connectivity between the southern and northern coasts.
Tom's River to Agualta Vale	Apr/2012 to Jul/2014	2,749.00	150	Improve travel time along the corridor; reduce vehicle operating costs.
JDIP - Morant Bay to Cedar Valley Road Rehabilitation Project	June/2012 to June/2013	..	60	Improve travel time along the corridor; reduce vehicle operating costs.

* NWA-PL2 projects are those projects that were initially targeted for implementation after FY 2011/12. The accelerated implementation of these projects is being recommended.
Source: PIOJ estimates based on data provided by the National Works Agency

Table 2A.3. RADA Farm-Road Rehabilitation Projects: Cost and Distance of Farm Roads in need of Repair, by parish

Parish	All Farm Roads		Priority Farm Roads	
	Distance km	Cost J\$ Million	Distance km	Cost J\$ Million
St. Andrew	140.9	276.16	54.8	107.41
St. Thomas	161.1	315.76	142.5	279.30
Portland	311.8	611.13	82.0	160.72
St. Mary	296.4	580.94	257.0	503.72
St. Ann	87.6	171.70	87.2	170.91
St. Catherine	262.2	513.91	85.6	167.78
Clarendon	54.5	106.82	23.0	45.08
Manchester	31.8	62.33	27.4	53.70
Trelawny	89.3	175.03	32.0	62.72
St. James	65.5	128.38	42.5	83.30
Hanover	149.6	293.22	149.6	293.22
Westmoreland	63.8	125.05	23.7	46.45
St. Elizabeth	266.2	521.75	266.2	521.75
TOTAL	1,980.7	3,882.17	1,273.5	2,496.06

Source: Rural Agricultural Development Authority, Ministry of Agriculture & Fisheries

**Table 2A.4. Micro-Finance Institutions (MFI):
Estimated Demand for Funds, FY2011/2012**
(J\$Million)

MFI	Allotted (50% of MFI's NW)	Balance Outstanding	Projection 2011/2012
Micro Credit Ltd	22.5	4.2	12.0
JN Small Business Loans Ltd.	196.0	75.0	48.0
Nation Growth Microfinance Ltd.	80.0	29.3	30.0
Access Financial Services Ltd.	136.8	114.7	100.0
Churches Cooperative Credit Union Ltd.	338.9	-	25.0
St. Thomas Cooperative Credit Union Ltd.	46.4	-	10.0
St. Elizabeth Cooperative Credit Union Ltd.	74.9	-	25.0
Total	895.5	223.2	250.0

Note. There is wide regional distribution of these funds to allow for broad-based access.
Source: Development Bank of Jamaica

Table 2A.5. Community Renewal Projects (CRP), 2011/2012	
Project	Cost (J\$Million)
CRP Projects Already Budgeted*	
1. CSJP	
Regular programme activities	1,000.0
2. JSIF	
PRP II (infrastructure upgrading)	318.0
ICBSP(infrastructure upgrading)	584.0
Community Crime and Violence Project	102.0
Community Investment Project (infrastructure upgrading)	387.0
Basic Needs Project 5&6 (social & infrastructural upgrading)	808.0
Subtotal	3,199.0
CRP Incremental Projects	
1. CSJP	
Sanitation upgrading	172.0
2. JSIF	
High-Risk Youth intervention in conjunction with PMI	200.0
Other CRP related activities	100.0
Sanitation upgrading +	250.0
Youth literacy project	85.0
3. JBDC/DBJ	
Business development & micro-lending +	100.0
4. SDC	
Community mobilization/planning	85.0
5. Ministry of Health	
Healthy lifestyle zones	85.0
6. Ministry of Youth	
CRP related activities	100.0
7. Ministry of Water & Housing/UDC/NHT	
CRP related activities	100.0
Subtotal	1,277.0
TOTAL	4,476.0

* It is requested that full budgeting for these items be brought on stream.

+ Funding provided by PetroCaribe for these projects.

Source: Various agency budgets and PIOJ data.

Appendix 2B

Impact Assessment of Short-term Measures: Detailed Tables

Table 2B.1. Value Added & Employment Impact of NWA - PL1 Projects				
Projects	Increase in jobs	Expenditure on Construction Activities (J\$Million)	Value Added from expenditure (J\$ Million)	
			Lower bound	Upper bound
IDB 2026 TIRP Scotts Cove - Belmont	100 - 134	285.00	356.95	746.70
IDB 2026 TIRP Sheffield - Negril	167 - 200	408.03	511.04	1,069.03
JDIP - Scheme Road rehabilitation	300	365.08	457.24	956.50
JDIP - Fairview Housing Scheme Drainage Plan	200	1,105.00	1,383.98	2,895.10
JDIP - Ocho Rios Road and Drain Improvement	200	408.00	511.01	1,068.96
CDB - Tropical Storm Nicole Rehabilitation	1,002	412.32	516.42	1,080.28
IDB 2026 TIRP - Big Pond/Old Harbour Drainage improvement scheme	100	309.24	387.31	810.21
TOTAL		3,292.66	4,123.95	8,626.77

Source: PIOJ estimates based on data provided by the National Works Agency

Table 2B.2. Value Added & Employment Impact of NWA - PL2 Projects				
Projects	Increase in jobs	Expenditure on Construction Activities (J\$Million)	Value Added from expenditure (J\$ Million)	
			Lower bound	Upper bound
OPEC Phase 2 May Pen - Trout Hall	502	3, 229.84	4, 045.27	8, 462.18
Tom's River to Agualta Vale	502	2, 473.92	3, 098.51	6, 481.67
TOTAL		5,703.76	7,141.78	14,943.85

Source: PIOJ estimates based on data provided by the National Works Agency

Table 2B.3. Impact of Repairing Farm Roads (J\$Million)			
Projects	Expenditure on Construction Activities (J\$Million)	Value Added from expenditure (J\$ Million)	
		Lower bound	Upper bound
All roads	3,882.17	5,497.65	10,171.29
Priority Roads	2,496.06	3,534.74	6,539.68

Source: PIOJ estimates based on data provided by the National Works Agency

Table 2B.4. Impact of Repairing Farm Roads, by Parish						
Parish	All Farm Roads			Priority Farm Roads		
	Distance (km)	Cost (J\$ Million)	Value Added (J\$ Million)	Distance (km)	Cost (J\$ Million)	Value Added (J\$ Million)
St. Andrew	140.9	276.16	391.08	54.8	107.41	152.10
St. Thomas	161.1	315.76	447.15	142.5	279.30	395.52
Portland	311.8	611.13	865.44	82.0	160.72	227.60
St. Mary	296.4	580.94	822.69	257.0	503.72	713.33
St. Ann	87.6	171.70	243.14	87.2	170.91	242.03
St. Catherine	262.2	513.91	727.77	85.6	167.78	237.59
Clarendon	54.5	106.82	151.27	23.0	45.08	63.84
Manchester	31.8	62.33	88.26	27.4	53.70	76.05
Trelawny	89.3	175.03	247.86	32.0	62.72	88.82
St. James	65.5	128.38	181.80	42.5	83.30	117.96
Hanover	149.6	293.22	415.23	149.6	293.22	415.23
Westmoreland	63.8	125.05	177.08	23.7	46.45	65.78
St. Elizabeth	266.2	521.75	738.87	266.2	521.75	738.87
TOTAL	1,980.7	3,882.17	5,497.65	1,273.5	2,496.06	3,534.74

Source: PIOJ estimates based on data provided by the National Works Agency

Table 2B.5. Impact of the CRP by Projects			
Agency	Expenditure on Infrastructure & Social Activities	Value Added from Expenditure (J\$Million)	
		Lower bound	Upper bound
CSJP	472.00	710.35	1,236.64
JSIF	335.00	486.29	877.70
JBDC/DBJ	100.00	155.59	262.00
SDC	85.00	132.25	222.70
MOH	85.00	132.25	222.70
MOY	100.00	155.59	262.00
MOWH/UDC/NHT	100.00	141.61	262.00
TOTAL	1,227.00	1,913.95	3,214.74

Source: Compiled by the PIOJ

Table 2B.6. Impact of DBJ Loans to MSMEs, by Industry		
	Loans (J\$ Million)	Impact of Expenditure (J\$ Million)
Agriculture	49.11	96.15
Mining & Quarrying	0.01	1.70
Manufacture	10.80	111.64
Electricity & Water	0.003	28.36
Construction	0.14	12.50
Wholesale & Retail Trade	134.35	229.00
Hotel and restaurant services	53.17	107.08
Transport, Storage & Communication	1.27	65.63
Financial intermediation and insurance services	0.06	27.02
Real Estate & Business Services	0.62	46.01
Government services	0.31	5.89
Other Services	0.00	12.55
Other community, social and personal services	0.15	32.18
Value Added	0.00	390.83
Total	250.00	1166.55

Source: Compiled by the PIOJ

Appendix 2C

Methodology of the Growth-Impact Analysis

1.0 The impact analysis of the short-term measures within the Growth-Inducement Strategy was primarily based on applying an Input-Output (I-O) model to analyze the economic effects of implementation of a selected list of projects.

1.2 The I-O model used is based on the 2000 Input-Output table of the Jamaican economy.⁴ It was closed with respect to the household sector. This allowed for measuring, at the detailed industry level, the projected direct, indirect and induced output effects of each project. Employment multipliers derived from the I-O Model were used to estimate the impact on employment. Bearing in mind that I-O based multipliers may, for various reasons, be lower than those obtained through time series estimates of expenditure multipliers, an alternative crude estimate of an output multiplier for the overall economy was also estimated using data relating to the change in GDP per dollar change in government expenditure.⁵ The results of both methods are presented in measuring the overall impact of each project on the economy.⁶ We interpret the I-O based estimates as providing a **lower bound** for the economic impacts while the aggregate multiplier is viewed as providing an **upper bound**.

1.3 The main assumptions used in isolating the final demand injections arising from each type of project were as follows:

- For the NWA public works projects, the injection was primarily modelled as an increase in investment demand for the output of the mining and quarrying sector, given the large share of expenditures devoted to local materials such as aggregates, bitumen, etc.
- For the RADA farm-road rehabilitation projects, the injection was modelled as an increase in investment demand distributed according to existing sectoral distribution of investment.
- For the CRP projects, a distinction was made between infrastructure-related projects and “social work” projects. The infrastructure components were treated in the same way as the RADA projects above, while the social work components

⁴ The Input-Output Table is best used to determine short-term impact effects for up to five years after its construction because underlying changes in the structure of the economy, over a longer term, are likely to alter the estimated coefficients. The 2000 I-O Table used here is based on the economic structure of 10 years ago. It is, therefore, likely to have reduced accuracy, by how much and in which direction are not known *a priori*. Improved measures must await updating of the I-O table. Meanwhile, these estimates serve as a useful benchmark, better surely than wild guesses or back-of-the-envelope calculations.

⁵ The crude output multiplier was measured by change in expenditure divided by change in GDP for 7 years, 2003 to 2010. A trimmed mean was then used as the multiplier.

⁶ The value added multipliers produced by the I-O analysis are usually underestimated as some of the spillover effects are not captured, depending on how the model is closed with respect to final demand. Conversely, the output multipliers for the overall economy are generally high and over-stated. This the PIOJ has learned from past experience of assessing the impact of construction of the Highway 2000 Project. The approach taken in the present work is to use both methods to provide a range for the expected gain in value from the projects.

were modelled as an increase in Government consumption demand for social and community development services.

- DBJ funding for MSMEs was modelled as an increase in investment channelled to the sectors indicated by the DBJ as accounting for the composition of approved but undisbursed funding.

1.4 There are several caveats to bear in mind:

- (1) The I-O based estimate of GDP impact captures mainly the impact of the construction phase of the infrastructure-related projects. It is to be noted that after construction, these infrastructure projects would be expected to have additional productivity-enhancing effects due to increase in the quantity and quality of the stock of public infrastructure. This is especially true for the RADA farm-road projects.
- (2) While the I-O model is closed with respect to the household sector, thereby capturing important secondary effects through induced household consumption spending, the I-O framework still may not capture all the induced demand spill-overs.
- (3) The GDP impact relates to the first year impact of these programmes, assuming a given production structure and inter-industry relationships. Permanent effects on growth would necessitate the implementation of other policy interventions which reinforce the credibility and sustainability of the overall economic programme.

Part I



Overview

Chapter 3

From the IMF Programme to Private-Sector-Led Growth within *Vision 2030 Jamaica* ⁷

Dr. Gladstone Hutchinson
Director General, PIOJ

“The private sector is where much of our focus is going to have to be to meet the overarching challenge of ... human development. Growth, jobs and opportunity belong there [and] not in the gift of government”. Mark Malloch Brown, Administrator, UNDP

1.0 Introduction

To grow a developing economy through a reduction in Government’s fiscal intervention is tricky business. Add to it the layers of complication brought on by a deep world recession and the internal misalignment of economic resources and history of sub-optimal public policy in Jamaica, and we are left with the narrowest and messiest of paths to success. Yet it is abundantly clear that this transformation is doable.

My argument is that this success rests squarely on whether you the private sector can discover resilience, robustness and elasticity in entrepreneurship and business development.

The fact is that state-dominated and directed management of economic resources as a paradigm for progress in economic and social well-being is largely discredited. It is and was always a bad idea. Globalization and technological progress and their demands that modern economies be agile, responsive and knowledge-based, are furthering the demise of this idea.

I need not do any telling to this group about the most basic of necessary conditions underlying our new economic paradigm and reform effort. If markets, and you the private sector, are not fully convinced that our country is irreversibly committed to this new private sector led economic paradigm, then the transformation will be a failure. In my presentation, I will discuss the evidence on this very point, and its implications.

⁷ Copy edited and re-formatted text of Presentation to **The Chairman’s Club Forum - Private Sector Organization of Jamaica**, September 28, 2010.

2.0 Vision 2030 Jamaica

Before delving into economic analytics, I would like to briefly engage us in why we should. As you recall, beginning in mid-2000 under the PNP administration and subsequently embraced, supported, and launched in 2007 under the current JLP administration, *Vision 2030 Jamaica – National Development Plan* is a product of comprehensive national discussions with stakeholders across political, religious, business, government, non-government and civil society divide. It conciliates our aspirations as a nation around four realistic national goals that integrate economic, social, cultural and environmental dimensions. These are:

1. To empower Jamaicans to achieve their fullest potential
2. To make the Jamaican society secure, cohesive and just
3. To make the Jamaican economy prosperous
4. To make the Jamaican natural environment healthy.

Figure 3.1 National Goals



On the basis of these national goals, the PIOJ has developed a dashboard of national indicators and targets to serve as a metric of our progress on *Vision 2030 Jamaica*.

Table 3.1. *Vision 2030 Jamaica – National Development Plan*
Dashboard of National Indicators

Main Reporting Area	Key Indicators	Past	Present	Future	
		1995	2009	2015	2030
1. Health Status	Life Expectancy (Years)	71.3 (Avg. 1989 - 1991)	72.7 (Avg. 2006 - 2008)	73.4	76.4
2. Education Status	Adult Literacy Rate (%)	75.4	86.8	≥ 91.6	≥ 98.3
	Gross Enrolment – Tertiary Level (%)	9.5	30.8	35-45 (Provisional)	50-70 (Provisional)
	Results in CSEC (% passing 5 subjects or more)	15.9 (1998)	35.9	40-50 (Provisional)	60-80 (Provisional)
3. Labour Force Quality	Labour Force Certification (% of Labour Force)	9.4	20.1	60.0	90.0
4. Security Status	Major Crime Rate/100,000 Population	616	438	182	43
	Murder Rate/100,000 Population	31	62	42	10 (a)
5. Justice Status	Case Clearance Rate (%) (Resident Magistrates' Courts)	97.8	80.1	95 (Provisional)	100 (Provisional)
6. Economic Growth	Real GDP Growth Rate (%)	2.2	-0.8	5	5
	GDP per Capita (US\$)	2,346	4,832	6,629	23,567
7. Employment	Total Unemployment Rate (%)	16.0	10.6	7.5	4-5
8. Environmental Stewardship Status	Environmental Performance Index	74.7 (2006)	58 (2010)	≥ 82.2	≥ 85

(a) Represents benchmarking to global average rate.
Note: Moving 3-year averages used for economic indicators.
Source: Compiled by the PIOJ

3.0 May 2010 Security Event and Aftermath

The clearest evidence of the country's need to pursue the goals of *Vision 2030 Jamaica* is the May 2010 security operations in West Kingston. The event exposed a malady of difficulties and challenges in the identified 100 vulnerable communities across the country. A Community Renewal Programme is being developed to address comprehensively the exposed social problems, in particular, crime and violence, and attendant issues such as illiteracy, anti-social behaviour, low self esteem, unemployment, poor housing, poor infrastructure, weak community governance and lack of coordination of social intervention programmes. Thanks to you as a body, and your leadership in the persons of Mr. Joe Matalon and Mrs. Sandra Glasgow, the PSOJ has been a perfect partner in the PIOJ's efforts to develop and coordinate the Community Renewal Programme. I am happy to report that significant progress has been made and we are well on our way to putting in place the framework to make a lasting difference in these communities.

What is important for our discussion is that Goals One and Two of *Vision 2030 Jamaica*, which speak of our collective wants of a Jamaica that "empowers each of us to achieve our fullest potential," and a Jamaica that is "secure, cohesive and just," are the inspirations for the CRP. These importantly are also the end goals of our economic growth and development ambition.

I say without fear of contradiction, that neither the goals of *Vision 2030 Jamaica*, which require substantial wealth creation, nor our IMF Fiscal Consolidation Programme, is achievable without the transformation of our economy into a private sector led one.

4.0 Current Fiscal Consolidation Programme

We are all aware of the GOJ entering into a Stand-By Arrangement (SBA) with the IMF to help pull our economy back from the brink of collapse. Quantitative and qualitative fiscal consolidation and reform are at the core of this SBA programme. Specifically, the Programme seeks to:

- place the debt to GDP ratio on a downward trajectory
- entrench fiscal accountability and discipline
- significantly raise real GDP growth rates.

The programme is growth inducing if it credibly reduces:

- government inefficiencies and distortions of economic resources
- the tax-price of the provision of government services
- the perverse incentives associated with government economic activism
- government crowding-out of the private sector through competition for resources

and leads to a greater expansion in the private economy because of the rational perception that long-term permanent wealth and income will increase as a result. This perception then encourages an increase in current expenditures and an expansion and growth in the economy.

This desirable outcome is boosted by the role fiscal consolidation plays in stabilizing the macro-economic environment through low inflation, stable exchange rate and low interest rate, while creating facilitative conditions for private investment.

Hence, fiscal consolidation has to be perceived as credible if it is to signal to the private sector that the government will be smaller, more efficient and complementary, and provide services at a lower tax-price, and if it is to be foundational in economic expansion. Its success rests exclusively on the emergence of a positive psychology and positive expectations by households, workers and firms in the economy. Economic agents must be convinced that the fiscal consolidation programme is credible, i.e. properly rationalized and/or timely and/or sustainable and/or irreversible, for them to extend their rational expectations beyond the short term and imagine a rise in their permanent wealth and income.

It is important to note here the result of failure. Under the failure scenario the economy would experience the predictable Keynesian response of a macroeconomic decline in economic activities and output and deflationary tendencies to fiscal consolidation. This Keynesian effect would be compounded by the shock of the global recession, and the structural rigidities clogging interest rate and price transmission mechanisms in the economy.

5.0 The Evidence

The Fiscal Consolidation Programme includes:

- rationalization of the public sector
- increase in taxes
- Debt Exchange Programme (JDX) to lower interest expense and extend the maturity of government instruments
- steps towards enactment of Fiscal Responsibility Laws.

This Programme is aggressively pro-cyclical, and is being implemented at a time when the economy is in a recession, thus exacerbating the downturn and delaying the recovery.

Our experience so far has included:

- decline in private sector demand for credit despite the lowering of nominal interest rates
- decline in the demand for the US dollar due to increased supply of foreign currency and noted fall of private sector demand
- decline in output in most industries resulting in increased unemployment levels and net private sector job losses of 86,600 since the official start of the recession in October 2008
- decline in household demand for credit.

The Programme has been further challenged by the shocks of:

- the longer than anticipated global recession

- the longer than anticipated global recession
- the shrinking fiscal space due largely to unprogrammed expenditures associated with the May 2010 Security Operations in West Kingston⁸
- the loss of wealth and liquidity in the private economy from the collapse of unregulated financial organisations (e.g. OLINT, Cash Plus), the impact of the JDX on interest revenues which led to the ending of GOJ low risk high return treasury bills.

Additionally, the structural deficiencies in the economy including a high debt to GDP ratio have

- prevented the GOJ from running a countercyclical policy to stimulate the economy during the recession
- reduced the GOJ's discretionary expenditure (non-debt expenditure), thus limiting the government's ability to spend on growth enhancing areas (education, infrastructure, security, etc).

6.0 Immobility of Capital Issue

The financial sector meltdown in the mid 1990s and the subsequent reform of the financial regulation, together with the GOJ's large appetite for debt financing, have led to a financial sector that is heavily dependent on government and that is relatively risk averse when lending to the productive sector⁹. The current recessionary environment has seen an increase in the stock of bad debts, a further increase of the risk averseness of financial institutions and uncertainty about future prospects, and an increase in postponement by consumers and firms of their spending and investment decisions.

⁸ ECLAC estimates the fallout at \$13 billion, while the Ministry of Industry and Investment estimates \$18 billion.

⁹ Access to financing was ranked fourth most problematic factor for doing business in Jamaica in the Global Competitiveness Report.

Figure 3.2

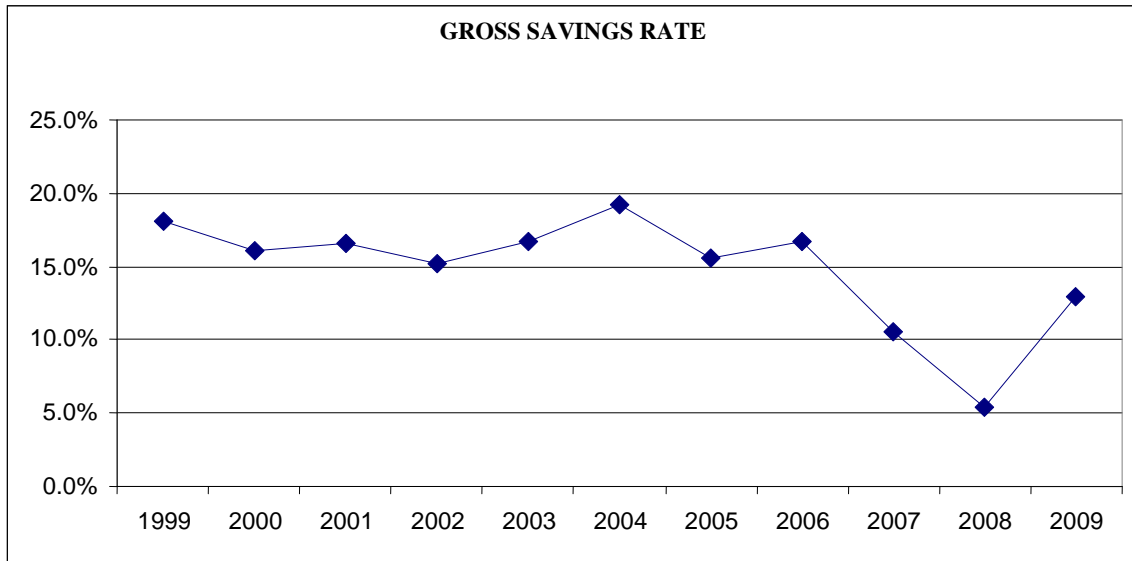
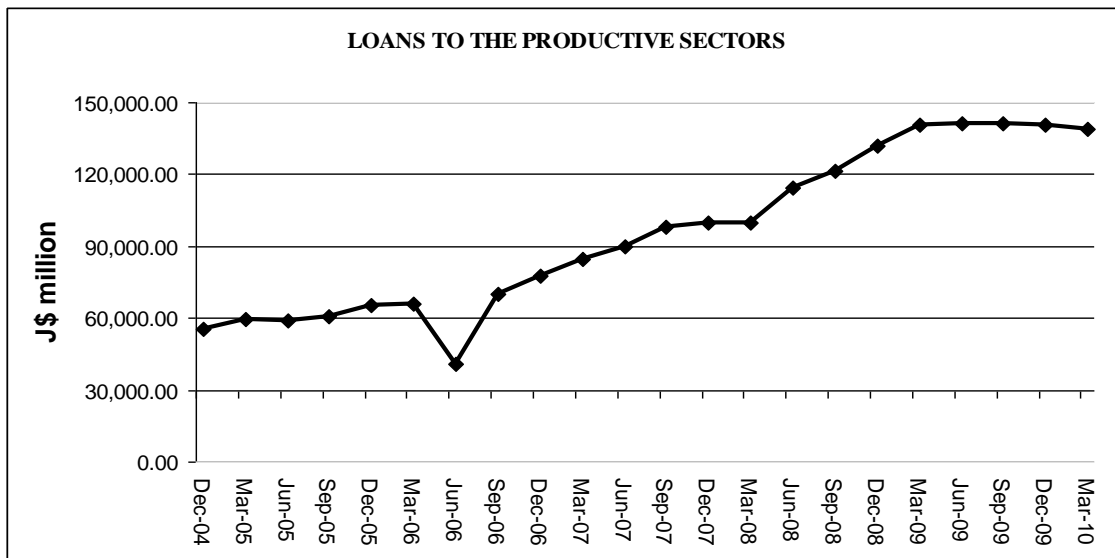
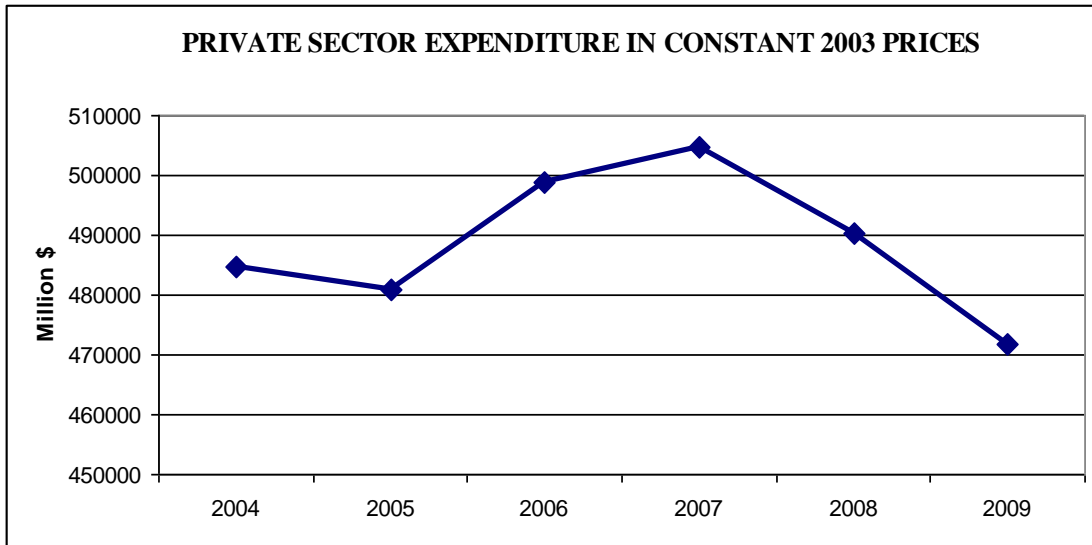


Figure 3.3



Since the intensification of the impact of the global recession on the Jamaican economy, the stock of Loans & Advances to the Productive sector has tapered off indicating the general ‘wait and see’ approach adopted by the business sector in light of the uncertainty of the extent of future job cuts and its impact on aggregate demand.

Figure 3.4



Real value of the Private Sector expenditure has been declining since 2007.

Figure 3.5



Decline in the Employment Levels: Total Employed Labour Force amounted to 1,087,900 persons in April 2010, down from a peak of 1,174,500 in October 2008.

Comparing the latest employment figures (April 2010) to the last time growth was recorded in employment (October 2008) it is seen that a cumulative total of 86,600 jobs were lost.

Table 3.2. Employed Labour Force by Industry Group, April 2004 –October 2008

Industries	Apr-04	Oct-08	Jobs Gained/Lost
Agriculture, Hunting, Forestry & Fishing	196,200	223,600	27,400
Education	48,800	72,200	23,400
Real Estate, Renting & Business Activities	39,400	54,700	15,300
Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods	204,800	219,500	14,700
Health & Social Work	23,900	33,600	9,700
Public Administration & Defence; Compulsory Social Security	43,500	52,900	9,400
Hotels & Restaurants Services	70,300	78,600	8,300
Financial Intermediation	13,500	21,600	8,100
Transport, Storage and Communication	76,500	84,200	7,700
Other Community, Social and Personal Service Activities	53,400	58,400	5,000
Mining & Quarrying	5,500	9,300	3,800
Electricity, Gas and Water Supply	6,500	9,100	2,600
Construction and Installation	105,300	105,700	400
Industry Not Specified (Incl. Extra-Territorial Bodies)	6,700	6,400	-300
Manufacturing	86,100	81,100	-5,000
Private Households with Employed Persons	74,200	63,600	-10,600
Total Employed Labour Force	1,054,600	1,174,500	119,900

Source: Statistical Institute of Jamaica

Table 3.3. Employed Labour Force by Industry Group, October 2008 - April 2010

Industries	October 2008	April 2010	Jobs Gained/Lost
Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods	219,500	205,000	-14,500
Construction and Installation	105,700	92,900	-12,800
Transport, Storage and Communication	84,200	72,000	-12,200
Health & Social Work	33,600	22,500	-11,100
Other Community, Social and Personal Service Activities	58,400	49,200	-9,200
Mining & Quarrying	9,300	3,000	-6,300
Education	72,200	66,500	-5,700
Manufacturing	81,100	76,000	-5,100
Private Households with Employed Persons	63,600	59,400	-4,200
Electricity, Gas and Water Supply	9,100	6,600	-2,500
Real Estate, Renting & Business Activities	54,700	52,200	-2,500
Industry Not Specified (Incl. Extra-Territorial Bodies)	6,400	4,200	-2,200
Public Administration & Defence; Compulsory Social Security	52,900	51,100	-1,800
Hotels & Restaurants Services	78,600	79,000	400
Agriculture, Hunting, Forestry & Fishing	223,600	224,500	900
Financial Intermediation	21,600	23,800	2,200
Total Employed Labour Force	1,174,500	1,087,900	-86,600

Source: Statistical Institute of Jamaica

Three industries recorded increases in employment over the period - Agriculture, Forestry & Fishing, Hotels & Restaurants Services, and Finance & Insurance Industries.

7.0 Danger of Public Sector Growth

Against the background of the dispirited economic performance evidenced above, the private sector must understand and appreciate that, when the public sector grows faster than the national economy and the private sector, it diminishes our ability to modernize and robustly grow our economy, and more importantly, robs us of our personal and collective development, well-being and freedom of ambitions.

Such a situation ultimately erodes our ability to exercise agency in the pursuit of our preferences – just read the wailing over the constrictions of the multi-lateral programmes — and is an important source of un-freedoms. It therefore amounts to public “bads,” because of its inescapability despite our best private efforts to abate its negative consequences. A second-rate education system, poor health-care, high levels of criminality and crime, corruption, and business enterprises with outmoded and uncompetitive structures of production come immediately to mind as examples of how government failures can inflict an economy with public “bads.”

These public “bads” contribute to the creation of two Jamaicas with no transitivity of fairness and opportunity of justice between them. Public “bads” are also complex because they are collectively consumed and require our collective effort to negate their societal harm. Since transitive fairness and justice, broad-based opportunities, equity and a “good economy” are all accepted as “public goods,” so too then should the collective aspirations of *Vision 2030 Jamaica* for all the reasons just discussed.

8.0 Government’s Role in Private Sector led Growth

In an August 1997 PSOJ Investment Policy Paper, your members endorsed the findings that micro-economic incentives like industry-specific tax incentives and subsidies were of secondary importance to the abatement of macro-economic and infrastructural constraints in the modernization, revitalization and growth of the economy. This point has been made by the World Bank and by a slew of researchers. I appreciate that these incentives can influence business decisions at the margin, and that they are often sought to compensate for how the poor macro-environment taxes firms and industries into uncompetitiveness; at other times, to match tax incentives and subsidies being granted to competing industries overseas; sometimes to assist in the modernization of domestic industries or to grow new ones; and sometimes for pure economic rent. Whatever the reason, aside from their unaffordability and the perverse incentives they create, they represent a losing and irrational proposition for our debt-ridden and public capital-starved economy. Micro-incentives should never be used as a compensating factor for government failure to adequately address critical macro-economic and infrastructural impediments to economic growth.

The fact of the matter is that the biggest incentive for growth, and one that has no sunset provision, is for Government to commission itself to the efficient production of its core functions. This best minimizes the transactions cost of private-sector business activities and is growth inducing.

As Professor Donald Harris has elegantly showed in a recent study on the Jamaican economy, fiscal consolidation aimed at dealing with the prevailing chronic state of fiscal imbalance is probably the most important of early steps in this important process.

Having declared this, I would be foolish to ignore the large body of international evidence that, and I quote from a May of this year study by the World Bank,

“shows that while activist government economic policies in developing countries have historically failed to achieve their stated objectives, in all successful economies the state has always played an important role in facilitating structural change and helping the private sector sustain it across time.”

So the issue is as much about the quality of government participation in the economy as it is about its size.

Therefore, once the “public good” of government efficiently producing its core functions and having budgetary practices that assure the public of transparency guarantee is adequately addressed, the issue then becomes: how government can rationalize its selective support for modern economic growth and development. The general view, based on continuously updated empirical international evidence, is that growth-friendly government policies beyond core activities is focused on addressing market imperfections that arise because of the collective consumption and productive nature of activities that are often essential to industry modernization and dynamic competitiveness.

Translating, successful government interventions under globalization and rapid technological change occur in situations where the policies are aimed at facilitating private agents in industrial upgrading and diversification of industry, and in exploiting market opportunities. They are aimed at assisting industries overcome information and coordination problems, including better matching risk-bearing capacity to access to financing and coordinating access to new markets, addressing externality/spillover effects, and improving industry soft and hard infrastructure, including modernizing property.

Note, they don't take equity share in firms or industry, nor engage in risk diversification, grant credit or return on investment (ROI) guarantees, offer pricing subsidies through tariff or non-tariff barriers, etc. Instead, their focus is on increasing the technical efficiency and competitiveness of firms and industries.

9.0 Proposals for Growth-Stimulus Initiatives

Within this context, the Economic Competitiveness Unit at the PIOJ has identified a couple of areas that could bear immediate fruits in terms of the revitalization of economic activities and sustainable growth in the economy.

First and foremost, it is the PIOJ's judgment that the biggest growth and development ROI for public expenditures and effort are in the areas of:

- Fiscal consolidation
- Crime and violence reduction and community revitalization.

Fiscal consolidation greatly reduces the chronic uncertainty over the impact of public finances on the private economy. If the consolidation is smartly rationalized and executed, it will have immediate growth-enhancing influences.

Crime and violence are cited as the number one reason hindering business activities in Jamaica and may cost the economy between 5% -7% in output growth yearly. The Community Renewal Programme could serve as a dual stimulant to the economy by, on the supply side, reducing security and extortion costs to firms, and facilitating a lengthening in the use of their capital base (i.e. run second and third shifts), and on the demand side, increasing aggregate demand through its shovel-ready infrastructure projects.

Beyond these two recommendations, government should also study the following initiatives:

(1) Incentives for the Short Term

- Tradable Tax Credits for start-ups in emerging industries and capital market funding
- Tax break for companies employing new workers, which would be capped at a pre-specified amount. A fraction of incremental revenue due to GOJ would be utilized to fund this initiative.
- Business Incubator Network – Access to affordable rent (e.g. Downtown Kingston), shared internet, shared corporate services with technical oversight provided (GOJ/IDP funding).
- Organic and Greenhouse Farming - using Constituency Development Funds and IDP Grants.
- Web-based employment bank, which matches persons on the basis of skill-sets and not previous positions held (GOJ).

(2) Incentives for Short to Medium term

- Establishment of a Real Estate Investment Trust for all Crown Lands (Capital Market).

(3) Incentives for the Medium Term

- Abolition of Estate Duty – Needed to give the necessary fillip to the real estate market which remains dormant as beneficiaries are unwilling to apply for letters of probate for fear of losing the bequeathed asset totally. Initial fallout in revenue will be covered by an exponential increase in second sales. This is already being treated in part under the Special Provisions Act which governs LAMP communities. Likely to be substantially revenue positive in the short to medium term.
- Give Local Authorities (parish councils, KSAC) the latitude to vary property tax and other local rates and charges in an effort to attract new business activity. This would create competition, a natural tax reduction for firms, and an expanded tax base for local government. It would also de-Kingstonize the economic base of the economy and open up new markets for housing and land. Coupled with the earlier suggestion for creation of a Real Estate Investment Trust and the abolition of Estate Duty, the regional real estate market would have new reasons to experience a boom in activities.
- Secured Transactions – Collateral reform – funded by IDPs. This would allow borrowers to pledge movable property as security for a loan in a manner that removes ambiguity regarding the property that has been pledged, gives lenders the right to repossess these assets speedily in the event of payment default. Fast-tracking the implementation of this recommendation should result in reduced interest rates, lower transaction costs and increased access to finance for the 35 per cent of business persons currently marginalized by the financial system.

(4) Medium-Long Term

- Strengthen Business Clusters that are organically developing. Foster the organic development of clusters of economic enterprises and industries that share value-chain linkages and benefit from proximity to each other. These linkages may be at the national level, or at the level of specific regions of Jamaica, where we can already see such clusters emerging, for example, in the development of linkages between farmers and hotels in resort areas on the North Coast, or between farmers and food processing facilities in our agricultural heartlands, or between transport infrastructure and logistics and manufacturing zones on the South Coast. These and other examples all offer the opportunity for a proactive and agile public sector to provide supporting conditions through integrated spatial and land use planning, provision of adequate and

targeted economic and social infrastructure, improvements to the business environment and labour markets, and other interventions.

- Regional development - The benefits of a strategy of regional development are many, including provision of sustainable livelihoods on a balanced geographic basis, and reduction in rural to urban drift. Most importantly, such a strategy will contribute to an expansion of the sphere of freedoms enjoyed by our citizens, who will be better able to make choices based on economic benefits and lifestyle preferences, and “vote with their feet” to relocate in geographically diverse manners for their long-term wellbeing and economic development aspirations. The suggestion to give Local Authorities (parish councils, KSAC) the latitude to vary property tax and other local rates and charges in an effort to attract new business activity is the perfect complement to any regional development initiative.
- Tax reform aimed at a general lowering and broadening of the base and simplifying taxes to better promote equity, fairness and economic growth, industry competitiveness, and broad-based development. According to existing studies, the complex system of tax incentives distorts the use of economic resources and is a major source of the misallocation of resources and inefficiency across industries. The tax system encourages “enclave’ development which has minimal linkages with the rest of the economy and directs investments flow to industries isolated from the violence which affects the other areas of the economy. This results in investment concentrating in areas such as All Inclusive Resorts, Mining & Quarrying and Export Free Zones. According to the 2004 *Final Report of the Tax Policy Committee*, “government has significantly narrowed its tax base through its granting of a wide range of preferential treatments,” and “Jamaica appears to be caught up in a culture of non-compliance (catch me if you can) and a path of finding the path of least resistance on the administrative side (I will catch who I can).”

These are just some of the ways in which the government could assist in removing constraints to growth in the private sector and the economy.

10.0 Conclusion

Our economy is at an important juncture, if not at a tipping point in its development. It has taken important strides to transform itself into a private sector led economy, but for a variety of reasons the private sector and private economy have contracted even more rapidly than the public sector over the past few years. Hence, the freed-up financial capital assets and the displaced human and physical capital assets expected under the rationalization of the public sector, are not being absorbed into an expanding private sector and expanding macro-economy. The potential economic dislocations from this is a recipe for a retreat to a state-directed economy, which over the past 30 years has proved unsuccessful in advancing our national well-being and development aspirations in any notable way.

It is clear to us at the PIOJ that crime reduction, the renewal of vulnerable communities across the island, and fiscal consolidation, form the essential platform for economic revitalization and broad-based growth and development. They are essential modern public goods, not modern public sector goods. This distinction is important because public goods and public bads are inescapable, are collectively consumed, and require collective production for their efficient contribution to national development.

This is where the private sector needs to step up a bit. Too often the discussions about economic reform are dominated by the illogical ideology of good private sector and bad government. There is no robust empirical validation of this position internationally anywhere. In fact, in my own study of privatization and economic efficiency, which has since been selected as among the top 50 works worldwide over time in public policy on the topic, I prove that the environment within which an enterprise operates is far more important to its efficient performance than whether it is a public versus private firm. And frankly, since the classic necessary conditions for firm efficiency do not exist in Jamaica – i.e. simultaneous capital market and goods market competition - there is good reason to believe, and frankly sufficient evidence of the fact, that private firms are not necessarily systemically efficient in Jamaica.

Fiscal consolidation and public sector rationalization will benefit our economy by reducing the misallocation of economic resources, lowering the cost of capital and tax-price of government, crowding in the private sector and private economy, and raising household wealth and workers permanent income. These achievements combine to create a most important public good.

So too are the economy-wide and collective benefits of crime reduction, community renewal, tax reform, and broad-based development. These reflect the conciliant aspirational goals of Jamaicans and are reflected in Vision 2030 Jamaica. As a result, the pursuit and achievement of Vision 2030 Jamaica, whose national vision statement is “*Jamaica, the place of choice to live, work, raise families, and do business*” is a critical national public good that all of us, including the private sector, must invest in and collectively produce if Jamaica is to achieve its fullest potential.

The private sector’s response to the fiscal consolidation effort has been insubstantial to date and I should use this occasion to remind you that entrepreneurship and private sector development are much like surfing: no risk-taking, no reward, and staying on the beach, while safe, never gives you worthwhile returns.

While the government has its role in creating the “public good” of a sound macro-economy and an enabling business environment, so too the private sector has a role to play in creating broad-based growth and development by:

- engaging in activities that build productivity and innovation in industries, instead of behaviour that seeks to secure preferential treatment for one group at the expense of others

- partnering with government to discover, develop and take advantage of new sources of competitive advantage in domestic, regional and global markets
- supporting, and indeed leading, efforts to ensure good governance, transparency and accountability at all levels – the company, the community and the country.

I thank you for this opportunity to share my analytical and heart-felt perspectives and aspirations and faith about our possibilities as a country. I represent all my colleagues at the PIOJ whose daily actions reflect their sincere belief in our country's bright future. My discussion today reflects the collective views of my colleagues and myself and I hope it represents part of the public good of government. We pledge to work tirelessly in partnership with you to pursue these important ends.

Chapter 4

Alignment of the Growth-Inducement Strategy with Vision 2030 Jamaica – National Development Plan ¹⁰

1.0 Vision 2030 Jamaica

Vision 2030 Jamaica - National Development Plan is the country's long-term strategic plan. It provides a comprehensive planning framework in which the economic, social, environmental and governance aspects of national development are integrated. The Plan is based on the vision of Jamaica as “*the place of choice to live, work, raise families, and do business*” and is expected to put Jamaica in a position to achieve developed country status by 2030.

The Plan is built on four strategic goals for national development. Operationally, the four **National Goals** are mapped into 15 **National Outcomes**, which in turn will be pursued through **National Strategies**, and ultimately through actions, programmes and projects at the sector and organizational levels. These are implemented through the plans and budgets of public sector ministries and agencies, as well as through the plans and projects of private-sector companies, civil society organizations and the programmes of International Development Partners (IDPs).

The four National Goals and 15 National Outcomes are indicated in Table 4.1.

2.0 Medium Term Socio-Economic Policy Framework (MTF)

The *Medium Term Socio-Economic Policy Framework (MTF) 2009-2012* represents the first phase of implementation towards the longer-term goals contained in the Plan. It outlines the priority national outcomes, strategies, actions and targets for the three-year period FY2009/10 – 2011/12.

The MTF targets an annual growth rate of real Gross Domestic Product equal to 3% from FY2011/2012 to FY2013/2014. However, recognition of the impact on Jamaica of the prolonged downturn in the global economy, and particularly in key export markets for Jamaica including bauxite and alumina and tourism travel, as well as the reduced prospects for access to global capital markets and foreign direct investment, has led to revisions in a number of key macroeconomic targets over the period 2011-2014. For example, under the Stand-By Arrangement with the International Monetary Fund, which Jamaica entered into in February 2010, the annual growth target has been revised downward to 1.9% for FY2011/2012 and FY2012/2013 and 2.0% for FY2013/2014.

¹⁰ In consultation with the Plan Development Unit, PIOJ.

3.0 Growth Inducement Strategy

The **Growth-Inducement Strategy** identifies measures designed to increase the rate of economic growth in the short and medium-term. These measures are closely aligned with the priority outcomes, strategies and actions contained in the MTF. Table 4.2 identifies specific features of the alignment of the MTF in relation to each component of the Growth-Inducement Strategy.

This close alignment demonstrates that the Growth-Inducement Strategy is fully consistent with the long-term strategic plan for development of the country. Therefore, its proposed measures will not only address the imperative for increased economic growth rates in the short to medium term, but will also contribute to the achievement of the medium and long-term goals and outcomes of *Vision 2030 Jamaica*. It also demonstrates the dynamism and relevance of the strategic planning framework provided by *Vision 2030 Jamaica*.

Table 4.1. National Outcomes Linked to National Goals

National Goals	National Outcomes
1. Jamaicans are Empowered to Achieve their Fullest Potential	1. A Healthy and Stable Population 2. World-Class Education and Training 3. Effective Social Protection 4. Authentic and Transformational Culture
2. The Jamaican Society is Secure, Cohesive and Just	5. Security and Safety 6. Effective Governance
3. Jamaica's Economy is Prosperous	7. A Stable Macroeconomy 8. An Enabling Business Environment 9. Strong Economic Infrastructure 10. Energy Security and Efficiency 11. A Technology-Enabled Society 12. Internationally Competitive Industry Structures <ul style="list-style-type: none"> • Agriculture • Manufacturing • Mining and Quarrying • Construction • Creative Industries • Sport • Information and Communications Technology • Services • Tourism
4. Jamaica has a Healthy Natural Environment	13. Sustainable Management and Use of Environmental and Natural Resources 14. Hazard Risk Reduction and Adaptation to Climate Change 15. Sustainable Urban and Rural Development

Source: PIOJ

Table 4.2. Alignment of Growth-Inducement Strategy Components with Vision 2030 Jamaica

Growth-Inducement Strategy			Alignment with Vision 2030 Jamaica - MTF		
Strategic Focus	Agenda		National Outcome	National Strategies	Priority Sector Strategies / Actions for Years 1-3
1. Social Inclusion	Community Renewal Programme (CRP); 100 targeted communities throughout Jamaica		Security and Safety	Strengthen the capacity of communities to participate in creating a safe and secure society	Improve the implementation of targeted community interventions
2. Asset Mobilization	Asset Class	Agenda Item			
	Financial	Loan portability	An Enabling Business Environment	Increase access to capital	Develop and implement measures for expansion of the domestic capital market
		Secured transactions			
		Jamaica Mortgage Bank			Institute credit bureaus to facilitate and fast track access to capital
		Credit Bureau			
	Real Property (land)	Land registration and title	An Enabling Business Environment	Ensure a facilitating policy, regulatory and institutional framework for business development	Improve processes related to land ownership, titling and transfer
		Probate & land transfer			
Real Estate Investment Trust					
Government Property	Sugar industry privatization	A Stable Macroeconomy	Ensure fiscal and debt sustainability	Undertake divestment of non-core GoJ assets	
	Jamalco divestment				
3. Competitiveness	Programme	Agenda Item			
	Tax Policy Reform	Tariff structure review	A Stable Macroeconomy	Develop an efficient and equitable tax system	Undertake fundamental tax reform to increase efficiency, simplicity and equity of the tax system
		Tax waiver reform			
		Consolidate statutory deductions			Improve and rationalize tax administration and payment processes
	Energy	National Energy Policy Action Plan	Energy Security and Efficiency	Diversify the energy supply	Finalize and promulgate the new Energy Policy
		Net metering/net billing				Ensure appropriate integrated policy framework, legislative and institutional framework for the energy sector

Growth-Inducement Strategy			Alignment with Vision 2030 Jamaica - MTF		
Strategic Focus	Agenda		National Outcome	National Strategies	Priority Sector Strategies / Actions for Years 1-3
	Manufacture	Industry Modernization Program; factory space; GOJ procurement	Internationally Competitive Industry Structures	Develop company sophistication and productivity	Develop the capacity of local companies in process, materials and energy efficiencies
	Agriculture	Diversify, modernize traditional farming; PMOs; greenhouses			Develop a diversified range of agricultural production including higher value-added production
	Exports	NES - Implementation Plan			Develop and implement the National Export Strategy
	Human Resources	Training, certification	World-Class Education and Training	Expand mechanisms to provide access to education and training for all including unattached youth	Increase the use of technology-driven training programmes
4. Business Networks	Sector	Agenda Item			
	Tourism & other services	Health/medical/heritage tourism	Internationally Competitive Industry Structures	Develop economic linkages and clusters	Develop new tourism market segments
		Sports			Promote Jamaica as a sports tourism destination
		Entertainment, crafts, food, attractions			Increase opportunities for products and services in the creative industries
	ICT	Regional ICT centers			Expand ICT-focused business parks for major service providers
	Government	Public sector procurement			
	Logistics Hub	Logistics infrastructure initial phase	Strong Economic Infrastructure	Develop Jamaica as a regional logistics hub with multimodal transport linkages	Coordinate and rationalize plans for logistics facilities at Port of Kingston, Vernamfield and Caymanas
	MSMEs	Capacity building; 5-yr tax holiday	An Enabling Business Environment	Develop the capabilities of micro, small and medium-sized enterprises	Provide training and capacity development for MSMEs

Growth-Inducement Strategy			Alignment with Vision 2030 Jamaica - MTF		
Strategic Focus	Agenda		National Outcome	National Strategies	Priority Sector Strategies / Actions for Years 1-3
5. Built Environment	Sector	Agenda Item			
	Infrastructure	Jamaica Development Infrastructure Program	Strong Economic Infrastructure	Expand and rationalize land transport infrastructure and services	Improve and rationalize the road transport infrastructure
		Negril Beach Restoration			
	Housing	Various projects, island-wide			
6. Urban-Regional Development	Programme	Agenda Item			
	Community Renewal Program Development Projects	100 targeted communities	Security and Safety	Strengthen the capacity of communities to participate in creating a safe and secure society	Improve the implementation of targeted community interventions
		Downtown Kingston Redevelopment			
		West Kingston Commercial Lifestyles Center	Strong Economic Infrastructure	Expand and diversify maritime infrastructure and services	Facilitate the smooth development of strategic maritime infrastructure for cargo and passengers
		Port of Falmouth			
		Montego Bay Convention Centre	Internationally Competitive Industry Structures - Tourism		Develop Montego Bay Convention Centre
7. Governance	Public Sector Transformation		Effective Governance	See Part IV.J	See Part IV.J

Source: Compiled by the PIOJ

Part II

Situational Analysis

Chapter 5

The Jamaican Economy - Economic Performance and Prospects ¹¹

1.0 Summary

Economic performance during 2010 was characterized by the following positive developments:

- significant stabilization of fiscal and debt dynamics in the short-term, occasioned by the Jamaica Debt Exchange
- stability in foreign exchange markets, reflecting the impact of BOP and budget financing from multilateral financial institutions in support of an IMF SBA, and central bank management of liquidity in line with monetary and fiscal targets under the GOJ's economic programme
- low and declining interest rates on GOJ benchmark instruments, which influenced a lagged and much smaller adjustment in bank lending rates.

However, notwithstanding these positive developments, economic growth was depressed and performed worse than initially projected in the second half of the year (current projection for 2nd half of 2010 is a decline of **-0.8%**, down from initial projection of **-0.2%**).¹² PIOJ also projects a rise in poverty levels from 16.5 per cent in 2009 to within a range of 18.5 per cent and 20.3 per cent in 2010.

These projections reflect, among other things, the negative effects of:

- weak aggregate demand occasioned by: (a) fiscal stabilization measures (b) reduced external demand for exports of goods and services (reflecting the “long-tailed” global recession)
- exogenous shocks, such as the May 2010 civil disturbance and the extreme weather conditions in September and October 2010.

In addition, production conditions continued to be negatively affected by long-standing structural constraints, including:

- high cost of doing business (financing, taxes, etc.)
- high levels of crime (notwithstanding a reduction in violent crimes during the latter half of 2010)
- high energy costs

¹¹ In consultation with the Economic Policy Research Division, PIOJ. Data and analysis in this Chapter first presented on September 16, 2010.

¹² Real GDP growth for 2010 is projected at -1.2 per cent.

- inadequate provision of public infrastructural services (both physical and non-physical infrastructure)
- inadequate stocks of human capital
- continued weakness in the real sector, as evidenced by a decline in private credit and rise in non-performing loans, which are leading indicators of real-sector business confidence.

Real GDP is projected to grow by 2.1 per cent in FY 2011/12 on the basis of favourable assumptions about production and demand conditions. However, the continued negative impact of the above-mentioned structural weaknesses combined with the likely negative impact of higher commodity prices (particularly oil and grains), will weaken the likelihood of attaining the projected growth target.

Current growth prospects are based on extremely fragile foundations and the PIOJ perceives most of the risks to its growth forecasts to be on the downside. The fragility of growth is underpinned by the following down-side risks:

- uncertainty regarding the robustness of a nascent global recovery in output and trade
- a further weakening of domestic aggregate demand consequent on continued fiscal contraction, in an environment where private sector “crowding-in” has exhibited significant inertia
- further erosion of social capital under the conditions of: (a) a slower than projected decline in poverty rates, and (b) continued weak labour-market demand
- vulnerability to weather-related shocks
- continued low labour (and capital) productivity due to structural constraints previously highlighted.

By retarding growth, these risks may threaten the sustainability of the current fiscal consolidation programme. In the absence of sustained growth, a fiscal consolidation programme would have to be supported by unsustainable cuts in public expenditures or additional revenue enhancement, the limits of which will be quickly reached. Such additional expenditure cuts and/or additional tax or revenue enhancing measures would further compound the pro-cyclicality of the current fiscal consolidation programme. Experience in other emerging economies operating under IMF programmes of fiscal consolidation confirms this pro-cyclical tendency, which is further aggravated by the nature of the political cycle.

There are current signs that these risks are real, for example, in the underperformance of certain categories of fiscal revenues (April - December 2010), in particular, PAYE and GCT (local) tax collections.

Therefore, the need to reduce the economy-wide risks to the sustainability of the current fiscal consolidation strategy and to achieve a higher growth target compels an urgent re-consideration of the medium-term macroeconomic policy agenda to focus on initiatives that achieve the following objectives:

- provide a stimulus to aggregate demand, in the short-term
- enhance the resilience of the economy to shocks
- reduce or remove, over the medium term, critical structural constraints to long-term growth
- improve the social inclusiveness of economic policies, which would include arresting and reversing the upward trend in poverty and addressing urban-rural imbalances.

Of special note regarding the fragility of our growth projections, data on the impact of recent natural disasters highlights that, during the last decade, Jamaica has suffered from several natural disasters, with Hurricane Ivan being the most significant. Combined, these disasters have cost the country approximately \$114 billion or approximately 2.1 per cent of GDP annually (compare this to the optimistic baseline forecast of 2.1% real GDP growth for FY 2011/12). These extreme weather events have also contributed significantly to either undesirable budget imbalances or unplanned (and oftentimes, unproductive) cuts in expenditures to finance post-disaster rehabilitation.

In light of these policy imperatives, the PIOJ is proposing adoption of a Growth-Inducement Strategy focused on a mix of short and medium-term measures featuring:

- targeted infrastructure spending, which is intended to improve the resilience of the built environment, contribute to increased agricultural production especially through rebuilding and maintaining farm roads, generate an immediate injection of aggregate demand and income, and improve social inclusion in volatile and vulnerable communities
- a targeted and broad-based Community Renewal Programme, aimed at ameliorating crime and improving social cohesion in targeted communities
- a package of medium-term policy reforms, including tax reform, which address the removal of structural constraints and improve cost-competitiveness of the economy
- strengthening value chain linkages between tourism, agriculture, agro-processing, and local services.

Early adoption and implementation of this Strategy is projected to provide significant immediate benefits beginning in 2011 in terms of the following key objectives:

- a. Job creation
- b. GDP growth
- c. Poverty reduction

2.0 Macroeconomic Assessment

2.1 International Economy

The international economy continued its recovery from the financial and economic crisis of 2008/09, as evidenced by an expansion in production and trade.

For 2010, the global economy grew by an estimated 4.3 per cent. Increased global economic activity was driven largely by Emerging Markets & Developing Countries which grew by 7.1 per cent. Within this category, Developing Asia registered growth of 9.4 per cent (China 10.5 per cent and India 9.7 per cent). Developed Countries grew by an estimated 2.7 per cent.

Despite improvements, further recovery was dampened by risks associated with high unemployment, subdued consumer demand in developed countries, and the European debt crisis. The threat of contagion to the Euro area from the Greek and Irish debt crisis compelled the IMF and other European countries to establish bailout packages to the highly indebted countries along with the implementation of stringent fiscal measures.

**Table 5.1. World Economic Growth Performance and Outlook:
2008 – 2010 (per cent per annum)**

	2008	2009	2010p
World Output	5.2	-0.6	4.3
Advanced Economies	2.7	-3.2	2.4
USA	2.0	-2.6	2.2
Euro Area	2.6	1.0	1.9
Japan	2.4	-0.3	1.9
UK	3.0	0.7	2.8
Canada	2.7	0.6	3.1
Emerging & Developing Economies	8.3	6.3	7.0
Central & Eastern Europe	6.2	5.2	2.9
Commonwealth of Independent States	8.6	6.0	3.3
Developing Asia	10.6	7.8	9.1
China	13.0	9.0	9.9
India	9.3	7.3	10.3
Latin America & the Caribbean	5.7	4.6	5.0

p = projected

Source: *IMF World Economic Outlook*, October 2010

Movements in International Commodity Prices - 2010

Rebounding from a major slump in 2008, commodity prices significantly recovered. Improved economic out-turns resulted in higher prices due to increased demand for fuels, crops and metals, particularly from emerging economies in Asia.

Table 5.2. Percentage Change in World Bank's Commodity Price Indices, 2008 – 2010

	2008	2009	2010
Energy*	39.7	-37.3	26.5
Non-Energy**	21.1	-21.6	26.5
• Grains	49.0	-23.7	0.4
• Metals & Minerals	3.7	-27.7	47.5

* The Energy index incorporates prices for coal, crude oil and natural gas.

** The Non-Energy index incorporates prices for agriculture, beverages, food, raw materials and fertilizers.

Source: World Bank, *Commodity Markets Review*.

Additional impetus for commodity prices resulted from: (i) increased investor confidence supported by the perception that the worst of the recession had passed; (ii) supply side shocks and production restraints; and (iii) severely cold winter weather. Price volatility during 2010 was influenced by financial investors who, through the use of futures contracts as financial instruments, bid up prices according to prospects for future shortages and exchange rate movements.

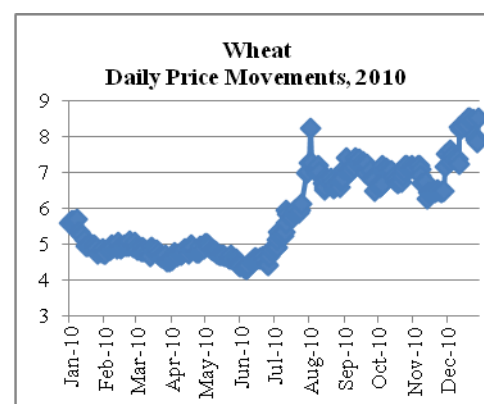
Table 5.3. Selected Commodity Prices, Daily Movements, Half Year And Calendar Year Changes

Commodity	Units	Daily Change			Six Month Change (%)	Calendar Year Change (%)
		31-Dec-09	30-Jun-10	31-Dec-10		
Aluminium	US\$/mt	2208.00	1928.00	2461.00	-12.7	11.5
Crude Oil	US\$/barrel	77.56	74.70	89.84*	-3.7	15.8
Wheat	US cents/bushel	5.43	4.65	8.51	-14.4	56.7
Rice (CBOT)	US cents/bushel	14.85	9.44	13.99	-36.4	-5.8
Corn/Maize	US cents/bushel	416.00	354.50	560.00	-14.7	34.6

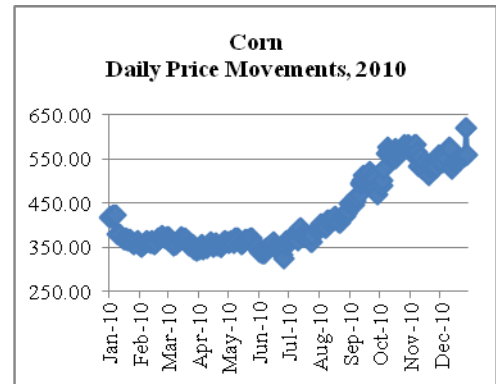
* Data available for December 30, 2010.

Source: Data compiled from LME, EIA, CBOT.

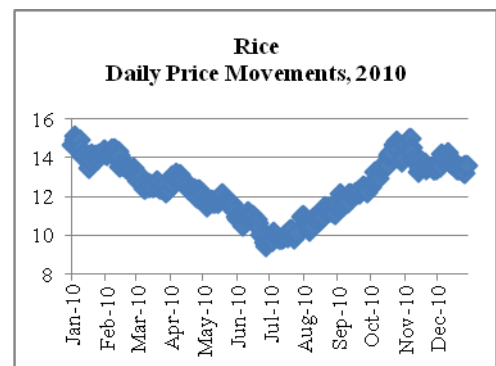
Against this background, energy prices increased by approximately 26.5 per cent relative to a decline of 37.0 per cent recorded in 2009. Non-energy commodity prices also moved up by 26.5 per cent. Reflecting the interplay between demand and supply factors, crude oil prices fluctuated, ending the year at US\$89.84, 15.8 per cent above the price recorded a year ago. Buoyant global demand was associated with increased industrial production, transportation and fuel for heating during severe winter weather. Global oil demand reached a record high of 87.4 mbd during 2010, up 2.5 mbd relative to the previous year. Higher fuel consumption emanated largely from Asia, most notably China, the world's largest energy consumer which increased its consumption by approximately 10.0 per cent, and North America with an approximate increase of 2.0 per cent. However, the severe debt conditions in several Euro countries contributed to decreases in demand from this region.



Increased global oil consumption was facilitated by increased supply from non-OPEC producing countries. However, oil prices have been constrained by high levels of inventory and production restraints. OPEC, which accounts for 40 per cent of global oil supply, maintained its production limitations enforced in 2008. Also moderating the level of oil price increase was the steady increase in non-OPEC oil production, from countries such as Canada, Kazakhstan and Brazil¹³.



In the first half of the calendar year 2010, grain prices declined in response to sufficient global supplies, amidst high levels of inventory and increased global production. This trend was subsequently reversed as market conditions tightened within an environment of supply side threats resulting from the impact of severe drought conditions on output levels of wheat producing countries, such as Canada, and Eastern Europe. In Russia, forest wildfires destroyed a significant percentage of the crop, leading the authorities to impose a ban on the export of grains until, 2011. Consequent on these developments wheat prices spiked to a two-year high. Subsequently, demand shifted to other grains such as corn, resulting in an increase in the price of these commodities. Wheat prices ended the year at US\$0.085/bushel (an increase of 56.7 per cent), corn prices ended at US\$5.60/bushel (an increase of 34.6 per cent). However, rice prices ended lower, at US\$0.1399/bushel, a 5.8 per cent decrease relative to the previous year.



There was also a general increase in metal prices. The price of aluminium stood at US\$2461/tonne, 11.5 per cent greater than the price quoted at the beginning of the year. The upward movement in these prices reflected improved industrial production and the associated increased demand for metals.

2.2 Domestic Macroeconomic Performance

Macroeconomic Policy

Central Government budget for fiscal year (FY) 2010/11 was developed within the context of the Government of Jamaica's Medium-Term Economic Programme which had facilitated the International Monetary Fund (IMF) approval of a Stand-By Arrangement (SBA) for Jamaica in February 2010. Revised Targets detailing Government's Memorandum of Economic and Financial Policies which accompanied the Letter of Intent to the IMF are indicated in Table 5.4.

¹³ Non-OPEC oil supply averaged 52.8 mbd in 2010, up 1.5 mbd relative to 2009.

The GOJ highlighted five strategies that would be the focal point on which a competitive macroeconomic environment would be pursued. These were:

- application of a strong, disciplined approach to fiscal and debt management
- reform of the tax system to allow for improved efficiency and the creation of a business friendly environment
- reduction of bureaucracy
- achieving higher levels of local and foreign investment above levels that were attained in the past 5–10 years
- increased energy conservation and development of alternative energy sources.

Table 5.4. Jamaica: Medium Term Macro-Economic Targets

	Unit	2008/09	2009/10	2010/11
			Actual Outcome	Targets*
Real GDP Growth Rates	%	-1.7	-2.5	0.6
Inflation				
Annual (point-to-point)	%	12.4	13.3	7.3
Balance of Payments				
Current Account/GDP	%	-18.0	-9.4	-8.8
Net International Reserves	US\$ million	1,629	1,751.9	1,424
Gross Reserves	US\$ million	1,664	2,414.4	2,151
Gross Reserves in weeks of imports	weeks	12.8	17.4	14.6
Fiscal Accounts				
Fiscal Balance	%	-1.3	-10.9	-6.5
Primary Balance	%	4.8	6.5	7.0

Source: Compiled by the PIOJ from data provided by BOJ, STATIN & MOFP.

Fiscal Accounts

For the period April – November 2010, Central Government operations generated a fiscal deficit of \$50,682.7 million, which was \$15,199.3 million better than budgeted. The fiscal deficit for the period resulted from Revenue & Grants being \$572.3 million higher than expected while spending was \$15,199.3 million lower than planned.

The higher than programmed Revenue & Grants was due to improved intake from Tax Revenue (up \$1,727.5 million) and Non-Tax Revenue (up \$618.0 million) which outweighed shortfalls by Bauxite Levy, Capital Revenue and Grants.

Central Government spending at \$247,605.1 million was 5.8 per cent lower than planned and was due to shortfalls of \$10,570.3 million and \$4,628.9 million for Capital and Recurrent Expenditure, respectively. The lower than expected outlay for recurrent expenditure was due mainly to the categories Interest and Wages & Salaries being

\$4,742.0 million and \$688.4 million below expectations, respectively. The lower than planned spending on interest reflected the impact of lower than projected interest rates due to the Jamaica Debt Exchange.

Inflation

For 2010, the point to point inflation rate¹⁴ was 11.7 per cent, 1.5 percentage points greater than the rate recorded for 2009¹⁵ (Table 5). During the year, prices were influenced by both external and domestic forces.

Movements in international commodity prices, particularly crude oil and grains, contributed to higher energy, food and transport-related prices. Consequently, the divisions which contributed most to the inflation out-turn for the year were Food & Non-Alcoholic Beverages, Transport, Housing, Water, Electricity, Gas & Other Fuels, which together accounted for approximately 78.0 per cent of overall inflation.

- Food & Non-Alcoholic Beverages increased by 12.8 per cent, influenced by weather related shocks and upward movement in international grain prices. Consequently, foods such as meat, bread and cereals for which grains are an input recorded increased prices. Additionally, the supply of domestically produced agricultural items was affected by drought conditions earlier in the year and by heavy rains in the latter half. As a result, increases in the prices of Vegetables & Starchy Foods accounted for approximately 40.0 per cent of the movement in food prices.
- Transport increased by 25.7 per cent. In addition to the effect of crude oil prices, the upward movement of the Transport index was affected by the April 1st increase granted to the JUTC and JUTC franchise operators.
- Housing, Water, Electricity, Gas & Other Fuels increased by 8.4 per cent. Movements in international commodity prices, particularly crude oil contributed to higher energy costs. The West Texas Intermediate to which local energy prices are linked, increased by approximately 28.8 per cent, translating into higher electricity costs.

Higher consumer price indices were reflected in all three regions: Greater Kingston Metropolitan Area (13.6 per cent); Other Urban Centres (12.0 per cent); and Rural Areas (10.3 per cent).

¹⁴ This is the percentage change between the monthly index for December 2008 and the monthly index for December 2007.

¹⁵ The average annual inflation rate was 12.6 per cent relative to 9.6 per cent for the preceding year.

Table 5.5. Inflation

	2009	2010
All Divisions	10.2	11.7
Food & Non-Alcoholic Beverages	8.1	12.8
Alcoholic Beverages & Tobacco	23.3	14.4
Clothing & Footwear	10.6	9.0
Housing, Water, Electricity, Gas & Other Fuels	23.0	8.4
Furnishings, Household Equipment & Routine Household Maintenance	9.8	7.0
Health	4.1	2.9
Transport	6.2	25.7
Communication	3.2	5.3
Recreation & Culture	9.6	6.9
Education	6.6	8.0
Restaurants & Accommodation Services	7.2	5.5
Miscellaneous Goods & Services	13.0	8.7

Source: Statistical Institute of Jamaica

2.3 External Trade Performance¹⁶

Merchandise Trade

For the period January - August 2010, Jamaica recorded a merchandise trade deficit (including single entity free zone) of US\$2,452.8 million compared with US\$2,301.3 million for the corresponding period of 2009. This performance is attributable to the increase in the value of imports and fall in the value of exports for the period under review compared with the corresponding period of 2009.

Merchandise Exports

During January - August 2010, total exports (including single entity free zones) were valued at US\$879.6 million, a reduction of US\$45.9 million compared with the corresponding period in 2009. Earnings from domestic exports were US\$829.6 million, a reduction of 5.3 per cent. Re-exports were valued at US\$50.0 million.

Traditional Domestic Exports

For the January - August 2010 period, earnings from Traditional Domestic Exports totalled US\$413.5 million, declining by US\$38.4 million or 8.5 per cent relative to the corresponding period of 2009. While all groups within this category declined, Agriculture, which earned US\$19.9 million, registered the greatest loss, falling by 43.0 per cent. The decline in Agriculture receipts was due mainly to a 50.4 per cent fall in coffee sales stemming from reduced demand by Japan, Jamaica's primary purchaser of coffee exports.

¹⁶ Data for this section relate to the period up to August 2010, due to the unavailability of more recent data.

Non -Traditional Domestic Exports

Earnings from Non-Traditional Exports were US\$416.0 million for the January - August 2010 period, declining by US\$8.2 million or 2.0 per cent compared with the corresponding period of 2009. This decline resulted from a 7.4 per cent fall-off in earnings from the category “Other” as increased revenue was registered for the remaining three components within Non-Traditional Exports. In the category “Other”, lower receipts were received for “Chemicals” (including ethanol) (down 64.4 per cent), Manufactured Goods (down 32.9 per cent) and Machinery and Transport Equipment (down 11.8 per cent). Lower exports of ethanol during the review period were the primary contributor to the decline in earnings from Chemicals (including Ethanol).

Table 5.6. Merchandise Exports: January-August 2009, 2010 (US\$ Million)

Exports	Jan - Aug. 2009	Jan - Aug 2010	Absolute Change 2010/2009	Jan - Aug % Change 2010/2009
Traditional Exports	452.0	413.5	-38.4	-8.5
Non -Traditional	424.2	416.0	-8.2	-2.0
Domestic Exports	876.1	829.6	-46.5	-5.3
Re - Exports	49.4	50.0	0.6	1.2
Total Exports	925.5	879.6	-45.9	-5.0

Source: Compiled from data supplied by Statistical Institute of Jamaica.

Merchandise Imports

During the January - August 2010 period, total imports (including single entity free zone) were US\$3,332.4 million, an increase of US\$105.5 million compared with the value of imports for the corresponding period of 2009. This was due mainly to an increase in the value of Mineral Fuels which went up by US\$154.7 million influenced by higher international fuel prices associated with the improvement in global economic conditions.

Table 5.7. Merchandise imports and Exports: January-August 2009, 2010 (US\$ Million)

	Jan.-Aug. 2009		Jan.- Aug. 2010		Jan.- Aug. 2010/2009 % Change	
	Imports	Exports	Imports	Exports	Imports	Exports
Food	537.7	185.7	529.7	154.2	-1.5	-17.0
Beverages and Tobacco	51.2	66.2	50.4	71.7	-1.6	8.3
Crude Materials	35.1	325.1	39.2	327.4	11.7	0.7
Mineral Fuels, etc.	896.0	143.8	1,050.7	214.1	17.3	48.9
Animal & Vegetable Oils & Fats	24.5	0.1	12.0	0.1	-51.0	0.0
Chemicals	456.8	141.9	414.7	51.6	-9.2	-63.6
Manufactured Goods	350.8	21.9	367.3	12.9	4.7	-41.1
Machinery and Transport Equipment	535.5	27.6	506.1	21.4	-5.5	-22.5
Misc. Manufactured articles	275.7	10.7	308.3	18.0	11.8	68.2
Other	63.7	2.7	54.1	8.1	-15.1	200.0
Total	3227	925.5	3332.4	879.6	3.3	-5.0

Source: Compiled from data supplied by the Statistical Institute of Jamaica.

The Foreign Exchange Market¹⁷

At the end of December 2010, the average nominal exchange rate was \$85.86 per US\$1.00, representing a nominal appreciation of 4.2 per cent compared with the end of December 2009. This performance for 2010 contrasts with an 11.3 per cent nominal depreciation recorded during 2009.¹⁸ Most of the appreciation observed during 2010 occurred in the April-June quarter when the Jamaican currency appreciated by 4.1 per cent. Marginal appreciation was recorded for the first and fourth quarters of the year as the July-September quarter registered a 0.3 per cent depreciation. The market displayed relative stability during the third quarter of 2010, in spite of demand pressures due to a decline in net private capital inflows and reduced foreign exchange supplies from tourism during the month of September.

The performance in the foreign exchange market during 2010 was influenced primarily by general improvements in Jamaica's macroeconomic conditions. Following the success of the Jamaica Debt Exchange initiative and the signing of a Stand-by Arrangement (SBA) with the International Monetary Fund (IMF), market conditions improved. Investor confidence improved as a result of these two initiatives and was further strengthened by the subsequent passing of end of March, June and September IMF quantitative targets. Investors showed increased willingness to hold Jamaican denominated instruments due to a favourable inflation outlook and increased confidence.

Throughout the year, foreign exchange supply was supplemented by: (i) higher remittance inflows¹⁹; (ii) increased inflows from the International Development Partners; (iii) reduction of the foreign currency reserve ratio by the BOJ during the first quarter of 2010 which led to the immediate release of US\$30.0 million; (iv) higher tourist receipts. On the demand side, the continued decline in aggregate demand resulted in weak demand for foreign currency which further influenced the appreciation of the dollar.

3.0 Sectoral Performance

3.1 January - September 2010

The economy contracted by 1.3 per cent for the first nine months of 2010 with the Goods Producing and Services Industries declining by 1.9 per cent and 1.5 per cent, respectively. The decline in real GDP was attributable to:

- the lagged impact of the global economic crisis;
- drought conditions which impacted some industries in the first and second quarters of 2010;
- reduced operations at Air Jamaica given the airline's sale to Caribbean Airlines;

¹⁷ This section is being assessed up to September 2010.

¹⁸ The depreciation recorded in 2009 reflected the impact of the economic downturn which resulted in a fall-off in supply reductions in remittance inflows and mining and quarrying receipts, and increased demand pressures due to market uncertainty.

¹⁹ For the January to November 2010 period net remittance inflows were US\$1,713.0 million, a 6.4 per cent increase compared with the corresponding period of 2009.

- negative impact of the Jamaica Debt Exchange Programme on net interest income of financial institutions;
- security operations in sections of Kingston and St. Catherine in May 2010;
- the passage of Tropical Storm Nicole in September 2010.

The industries that registered the largest declines during this nine-month period were Mining & Quarrying; Finance & Insurance Services; Electricity & Water Supply; and Manufacture.

Table 5.8. Change of Value-Added by Industry at Constant (2003) Prices

Industry	FY	Jan-Mar	Apr-Jun	Jul-Sept	Jan-Sept	Oct-Dec	Jan-Dec
	2009/10	2010	2010	2010	2010	2010	2010
	Official Estimates					Preliminary Estimates	
Goods Producing Industry	-8.4	-3.9	-2.2	0.7	-1.9	-0.5	-1.5
Agriculture, Forestry & Fishing	12.9	6.6	-3.2	5.2	2.9	-5.0	0.9
Mining & Quarrying	-54.7	-40.7	3.7	29.3	-10.3	20.2	-3.5
Manufacture	-4.2	-0.6	-2.6	-3.5	-2.2	-2.7	-2.3
<i>of which: Food, Beverages & Tobacco</i>	-3.5	-2.0	-1.7	-0.5	-1.5	-1.0	-1.4
<i>Other Manufacturing</i>	-5.0	1.6	-3.8	-7.0	-3.2	-4.5	-3.5
Construction	-5.4	-2.1	-2.2	-3.9	-2.7	0.5	-1.9
Services Industry	-0.4	-0.5	-2.1	-1.9	-1.5	-1.3	-1.4
Electricity & Water Supply	2.2	-1.2	-2.5	-5.8	-3.2	-7.7	-4.3
Transport, Storage & Communication	-1.4	1.2	-3.1	-4.3	-2.1	-3.0	-2.3
Wholesale & Retail Trade; Repair and Installation of Machinery	-2.2	-2.0	-2.2	-1.9	-2.0	-1.2	-1.8
Finance & Insurance Services	0.1	-3.7	-5.2	-4.2	-4.3	-3.0	-4.0
Real Estate, Renting & Business Activities	-0.7	-0.7	-1.0	-1.2	-1.0	-1.0	-1.0
Producers of Government Services	-0.3	-0.2	-0.1	0.0	-0.1	0.0	-0.1
Hotels and Restaurants	4.1	6.6	-1.1	2.4	2.7	4.5	3.1
Other Services	0.3	0.0	-1.1	0.6	-0.2	0.8	0.1
Less Financial Intermediation Services Indirectly Measured (FISIM)	0.2	-5.7	-5.8	-9.1	-6.9	-6.0	-6.7
Total GDP at basic prices	-2.5	-1.1	-2.0	-0.9	-1.3	-0.8	-1.2

Source: STATIN & PIOJ

Mining

For January – September 2010, real value added for the Mining & Quarrying industry declined by 10.3 per cent relative to the corresponding period of 2009. This was due to a 20.4 per cent decline in alumina production as crude bauxite production increased by

53.7 per cent. The decline in alumina production was as a result of fewer alumina plants being operational in the current period relative to January – September 2009. Total bauxite production increased by 8.2 per cent to 6 331.1 kilo tonnes, reflecting increased crude bauxite production, which outweighed the decline in the Bauxite Equivalent of Alumina production.

Alumina exports fell by 31.2 per cent to 1 039.4 kilo tonnes, while crude bauxite exports increased by 51.3 per cent to 3,312.8 kilo tonnes. Total bauxite exports declined by 0.5 per cent as the increase recorded in crude bauxite exports was offset by the lower bauxite equivalent of alumina exports.

Preliminary data for export earnings for the nine-month period show a decline of 1.3 per cent to US\$351.9 million compared with the corresponding period of 2009. This reduction represented a decline in the value of alumina exported, which outweighed the increase in the value of crude bauxite exported. The decline in the value of alumina exported was due to lower volume exported, which outweighed the impact of higher prices, while the growth in crude bauxite exported was due to higher prices and volume exported.

Manufacture

Real value added for the Manufacture industry declined by 2.2 per cent, reflecting the lower real value added for the two main components of the industry. Real value added for Food, Beverages & Tobacco and Other Manufacture declined by 1.5 per cent and 3.2 per cent, respectively. For the nine-month period, the industry was negatively affected by:

- low domestic and international demand for Jamaican manufactured products
- the security operations and State of Emergency in sections of Kingston and St. Catherine, during the months of May and June 2010
- adverse weather conditions associated with Tropical Storm Nicole in September 2010.

Contraction in the Food, Beverages & Tobacco sub-industry was influenced by lower levels of output for both the Food Processing and Beverages & Tobacco sub-categories. Contraction in the Food Processing component was reflective mainly of relatively lower levels of sugar production, which declined by 6.9 per cent compared with the corresponding period of 2009. Lower sugar production was attributed mainly to the impact of adverse weather conditions on the quantity and quality of sugar cane reaped.

The decline in the Beverages & Tobacco component reflected lower levels of production for all commodities, with the exception of Carbonated Beverages, which grew by 12.4 per cent for the nine-month period relative to the comparable period of 2009.

The lower real value added for Other Manufacturing was attributed mainly to downturns in Chemicals & Chemical Products and Non-Metallic Minerals. Production in the Chemicals & Chemical Products sub-group was influenced mainly by lower output of

ethanol and paint, whereas lower demand for construction materials such as cement, blocks and tiles accounted for the down-turn in the Non-Metallic Products sub-industry.

Construction

During January – September 2010²⁰, real value added for the Construction industry²¹ fell by an estimated 2.7 per cent.

This performance occurred against the background of the lingering effects of the negative impact of the global economic crisis on the domestic economy. The downturn recorded for the industry was attributed mainly to:

- decline in activities in Building Construction due to a reduction in the number of projects
- reduced activities associated with the completion of major construction work on the North Coast Highway Project at the end of 2009 and work stoppage on Highway 2000 due to geological issues.

Cement production for the nine-month period amounted to 526,090 tonnes, a 4.1 per cent decline when compared with the amount produced in the corresponding period of 2009. Approximately 141,573 tonnes of cement was imported during the first nine months of 2010 compared with 129,743 tonnes of cement during the corresponding period of 2009. The export of cement increased to 132,804 tonnes during the period relative to 59,009 tonnes during January to September of 2009. Cement supply fell by 13.7 per cent to 534,859 tonnes.

Table 5.9. Selected Construction Industry Indicators, January – September 2008-2010

Indicator	2008	2009	2010	2010/2009 % change
Housing Starts	2,616	1,607	2,262	40.8
Completions	2,739	2,092	1,961	-6.3
Total Value of Mortgages (\$ million)	2,672	17,987	17,076	-5.1
Comm. Bank Loans & Advances (\$ million)	12,086	49,825	56,646	13.7
Cement Production (tonnes)	537,468	549,155	526,090	-4.2
Cement Supply (tonnes)	708,502	619,529	534,859	-13.7
GDP Growth Rates (per cent)	-3.7	-4.9	-2.7	

Source: Compiled by the PIOJ

Non-residential construction expenditures by selected entities during January - September 2009 were as follows:

1. The Port Authority of Jamaica disbursed a total of \$5 694.9 million relative to \$2 450.5 million disbursed in the comparable period of 2009.

²⁰ Latest actual data available at the time of writing.

²¹ Building Construction (82.0 per cent) and Other Construction, mainly Civil Engineering (13.0 per cent), together account for 95.0 per cent of Total Construction. Building Installation (inclusive of repairs) accounted for the remaining 5.0 per cent.

2. Disbursements by the Jamaica Public Service Company Ltd. declined by 98.3 per cent to reach \$27.9 million.
3. Capital expenditure on construction projects by the National Works Agency amounted to \$276.0 million reflecting a fall in expenditure on the construction of the Northern Jamaica Development Project (North Coast Highway).
4. The Urban Development Corporation disbursed a total of \$2 019.2 compared with \$1 275.0 in the corresponding period of 2009.

Agriculture

For the period January - September 2010, real value added for Agriculture, Forestry & Fishing grew by 2.9 per cent relative to the corresponding period of 2009. The growth in the industry was driven by increased output in Traditional Export Crops and Other Agricultural Crops. For the first half of the year, real value added for the sector grew by 1.7 per cent. The industry grew despite being severely affected by drought conditions which began in the latter half of 2009 and continued through to May 2010. Following the drought, the industry was impacted by Tropical Storm Nicole at the end of the third quarter (September 26 – 30) which caused considerable losses. Losses to Domestic Crops and Livestock were estimated at \$576.5 million with a further \$574.6 million damage to agricultural roads.

Growth in the sector was influenced by the intensification of the Ministry of Agriculture's "Production and Productivity Programme" aimed at improving best-practice methodologies among selected groups of farmers engaged in the production of a selected group of domestic crops. This programme encourages the production of the selected crops in areas that are best suited, by farmers who are willing to be trained to implement improved production practices. In addition, to mitigate the effects of the drought, the Ministry of Agriculture encouraged the following strategies:

- water conservation and improved irrigation efficiencies through the use of drip systems supplemented by Black Tanks;
- increased planting in areas served by irrigation schemes;
- increased use of protective agriculture (greenhouse).

Wholesale & Retail Trade; Repair and Installation of Machinery

For the nine-month period, January-September 2010, real value added for the Wholesale and Retail Trade; Repair and Installation of Machinery (WRTRIM) industry declined by 2.0 per cent compared with the corresponding period of 2009. The lower value added was consistent with the adverse impact of the global crisis on consumers and distributors. Within an environment of contracting output levels, relatively high levels of unemployment²² and uncertainty about future economic prospects, gross sales declined. Consistent with this out-turn was a decline of 13.4 per cent and 7.2 per cent in the volume and value of Automated Banking Machines (ABM) and Point of Sale (POS) transactions, respectively. Additionally, the industry was adversely impacted by declines of 2.7 per cent and 2.2 per cent in the Construction and Manufacture industries, respectively.

²² As at July 2010 the unemployment rate was 11.6 per cent relative to 11.3 per cent in July 2009.

Analysis of preliminary GCT data revealed that six of the nine goods categories recorded lowered sales. Those registering lower sales were:

- Food Beverage and Tobacco (3.5 per cent)
- Automobiles, Commercial and Transport Equipment (1.0 per cent)
- Chemicals, Pharmaceuticals and Cosmetics (13.4 per cent)
- Furniture, Furnishings, Office Equipment and Jewellery (39.1 per cent)
- Electronics, Musical and Photographic Equipment (2.1 per cent)
- Other Manufactured Goods (8.8 per cent).

Further reduction in value added was mitigated by increases in other indicators, namely:

- a 7.0 per cent increase in the value of remittance inflows relative to the corresponding period of 2009
- a 20.2 per cent and 2.0 per cent increase in the stock of loans and advances to distributors and consumers, respectively
- a 3.3 per cent increase in Merchandise Imports for the period January to August²³ 2010 relative to the corresponding period of 2009.

Electricity & Water Supply

Real value added for the Electricity & Water industry contracted by 3.2 per cent for the period January–September 2010 relative to the corresponding period of 2009. This performance reflected declines in gross generation²⁴ and water production.

Total generation²⁵ was 3,139.3 million kWh compared with 3 140.4 million kWh during the corresponding period of 2009. The relatively flat out-turn reflected the combined effect of a decline of 0.5 per cent in generation from the JPSCo's units and a 0.9 per cent increase in generation from non-JPSCo sources. The reduction in generation occurred despite higher generation in the January-March 2010 and April-June 2010 quarters as output in July-September 2010 was impacted by, among other things, the rain related conditions, including Tropical Depression # 16 and Tropical Storm Nicole. The heavy rains and strong winds associated with TS Nicole damaged the JPSCo's transmission and distribution system resulting in loss of power to some customers. The lower generation recorded in July-September 2010 must be viewed against the background of record production levels in the corresponding quarter of 2009, in response to the highest peak demand at approximately 644.0 million kWh. During that period, both JPSCo and non-JPSCo sources recorded their highest production levels since their inception.

Electricity sales increased by 1.2 per cent to 2,445.3 million kWh, reflecting higher sales to all category of consumers, except the Power Service which declined by 3.1 per cent to 570.9 million kWh. The overall improvement in sales was due to increases in the January-June 2010 period, reflecting expansion in the customer base of some categories of consumers.

²³ Based on data available at the time of compilation.

²⁴ Calculation for real value added is based on gross generation, which is generation from JPSCo inclusive of Station Use plus purchases from non-JPSCo sources.

²⁵ Total electricity generation is the amount of electricity made available to the national grid.

The amount of water produced by the National Water Commission during January – September 2010 was 212,002.9 megalitres compared with 225 102.0 megalitres in the corresponding period of 2009. The fall-off in production during the review period stemmed from lower production of 7.3 per cent and 3.5 per cent in the Eastern and Western regions to 126,006.5 megalitres and 85 996.4 megalitres, respectively. The performance in the review period was due mainly to the contraction in output in the January-June period, influenced mainly by the drought conditions experienced from the latter part of 2009 into the first quarter of 2010. Despite damage to NWC’s infrastructure works by Tropical Depression # 16/Tropical Storm Nicole, there was higher water production in July-September 2010 compared with the corresponding quarter of 2009 when output was constrained by the ensuing drought conditions. The increased output in July-September 2010, however, was not enough to outweigh the earlier declines, thereby translating into reduced out-turn for January-September 2010.

Transport, Storage & Communication

Real value added for the Transport, Storage & Communication industry declined by an estimated 2.1 per cent in the first nine-month period of 2010. This was due mainly to reduction in the Transport & Storage segment of the industry as the Communication component recorded moderate growth. The decline in the Transport & Storage segment reflected, in the main, reduced activities at the island’s airports in the April-June and July-September 2010 quarters, which outweighed improvements in January–March 2010.

During the January-September period, total passenger movements at the airports fell by 1.8 per cent to 3,730,256, reflecting reductions in all categories of passengers:

- Arrivals – 1.6 per cent to 1,780,599 passengers
- Departures – 1.5 per cent to 1,875,023 passengers
- Intransit – 12.2 per cent to 74,634 passengers.

The negative out-turn occurred despite the introduction of new flights during the review period, as there were other challenges. Among these were:

- the negative impact of the global economic crisis on air travel
- cut in some Air Jamaica routes prior to its sale to Caribbean Airlines
- cancellations associated with the Icelandic Volcanic Ash, the unrest in West Kingston and the strike by Spirit Airlines pilots.

The downturn in airport activities was enough to outweigh improvements at the seaports. For the review period, the total volume of cargo handled at the island’s ports rose by 5.4 per cent to 11, 338,408 tonnes, due to a 9.8 per cent increase in the volume handled at the Outports. The higher cargo volumes handled at the Outports was triggered mainly by increased activities in the bauxite/alumina sub-industry, brought about mainly by increased bauxite exports at Port Rhoades. Increased activities at the Outports was also positively impacted by the reopening of the WINDALCo plant in Ewarton in June 2010 which resulted in higher exports of alumina from Port Esquivel during July-September 2010.

The number of ship calls to the island's port also grew to 2,674 compared with 2,548 during January-September 2009. This increase was in tandem with the improved activity at the ports and to some extent reflected the number of ships from smaller islands which docked at the port to collect containers brought by larger ships.

Tourism

For January to September 2010, real valued added for the Hotels & Restaurants industry grew by 2.7 per cent. The higher value added was due to increased stopover visitor arrivals.

Total visitor arrivals increased by 0.9 per cent to 2,138,197 compared with the corresponding period of 2009. This was due to a 4.0 per cent increase in stopover arrivals which was influenced by increased arrivals from the USA and Canada markets. Visitor arrivals from the USA grew by 5.8 per cent to 970,701. The Canadian market registered a total of 237,130 stopover arrivals compared with 220,635 in 2009.

At the end of September 2010, 467,141 passengers visited the port of Ocho Rios, 2.7 per cent fewer than the corresponding period of 2009. Similarly, there was a 10.5 per cent decrease in cruise passenger arrivals visiting the port of Montego Bay.

Provisional visitor expenditure for January–July was estimated at US\$1 258.9 million, representing a 1.6 per cent increase compared with January–July 2009. Stopover expenditure amounted to US\$1 213.7 million compared with US\$1 186.9 million during 2009. Cruise ship passenger arrivals amounted to US\$45.2 million compared with US\$52.2 million in the corresponding period of 2009.

Table 5.10. Visitor Arrivals, 2009 - 2010

Period	Total Stopover Visitors			Cruise Passengers			Total Visitor Arrivals		
	2009	2010	2010/2009 % change	2009	2010	2010/2009 % change	2009	2010	2010/2009 % change
Jan-Mar	485,097	529,934	9.2	310,720	277,297	-10.8	795,817	807,231	1.4
Apr-Jun	486,094	480,935	-1.1	240,204	206,937	-13.8	726,298	687,872	-5.3
Jan-June	971,191	1,010,869	4.1	550,924	484,234	-12.1	1,522,115	1,495,103	-1.8
Jul-Sept	443,776	460,944	3.9	152,662	182,150	19.3	596,438	643,094	7.8
Jan-Sept	1,414,967	1,471,813	4.0	703,586	666,384	-5.3	2,118,553	2,138,197	0.9
Oct-Dec ^p	418,778	444,488	6.1	218,763	243,235	11.2	637,541	687,723	7.9
Jul-Dec ^p	862,554	905,432	5.0	400,913	425,385	6.1	1,263,467	1,330,817	5.3
Jan-Dec ^p	1,833,745	1,916,301	4.5	885,147	909,619	2.8	2,718,892	2,825,920	3.9

p-preliminary

Source: Compiled from data supplied by: Jamaica Tourist Board.

Finance & Insurance Services

For January to September 2010, real value added for the Finance & Insurance Services industry fell by 4.3 per cent. This performance was due mainly to:

- a reduction in net interest income on loan stock at deposit-taking institutions due to the impact of the Jamaica Debt Exchange
- a reduction in the stock of loans and advances.

3.2 Calendar Year 2010

Gross Domestic Product²⁶

A decline of 1.2 per cent in real GDP was estimated for 2010, the third consecutive annual contraction. Productive activity was constrained by the prolonged impact of the global recession on the domestic economy. Consumer demand remained subdued due to uncertainty regarding economic prospects, increased unemployment and the reduction in real income. The economy was also adversely affected by the impact of two shocks, namely: (i) security operations in sections of Kingston & St. Catherine; and (ii) the Passage of Tropical Storm Nicole. The Electricity & Water Supply, Finance & Insurance Services and Mining & Quarrying industries registered the largest reduction in value added, declining by 4.3 per cent and 4.0 per cent and 2.5 per cent, respectively.

For the first half of the year, real GDP declined by 1.5 per cent with the Goods Producing and Services industries contracting by 3.1 per cent and 1.3 per cent, respectively. A decline of 0.8 per cent was estimated for the July-December 2010 period, resulting from the combined effect of a 0.3 per cent expansion in the Goods Producing Industry and a 1.6 per cent contraction in the Services Industry. Growth in the Goods producing Industry was due mainly to a 27.0 per cent increase in the Mining & Quarrying industry and was associated with the reopening of WINDALCo's Ewarton alumina plant in July 2010. During the final six months of 2010, lower value added in the Services Industry will primarily be influenced by reduced activity in the Electricity & Water, Transport Storage & Communication and Finance & Insurance Services industries. Strong growth was, however, estimated for the Hotels & Restaurants industry.

The decline in real GDP during the July-December 2010 period emanated from contractions in both the third and fourth quarters of 2010. Based on official estimates, a decline of 0.9 per cent was recorded for the July-September 2010 period, a slowing in the rate of decline compared with the out-turn in the previous two quarters. Preliminary estimates for the October-December 2010 quarter indicated that the economy declined by 0.8 per cent compared with the corresponding period of 2009. Economic activity during October – December 2010 was constrained by continued weak domestic demand in addition to the effect of Tropical Storm Nicole. The Agriculture Forestry & Fishing and Electricity & Water Supply industries were estimated to have recorded the strongest contractions. Lower real value added for Agriculture Forestry & Fishing was due mainly to the negative impact of Tropical Storm Nicole primarily on Domestic Crops. The Electricity & Water Supply industry declined due to reduced electricity demand from all user groups and reflected the general downturn in economic activities as well as the impact of cooler than normal temperatures during the quarter. The Mining & Quarrying

²⁶ Real GDP figures for 2010 are based on official January-September 2010 figures from STATIN and preliminary October-December 2010 estimates from PIOJ.

industry was, however, estimated to have registered the strongest growth due to increased crude bauxite production coupled with higher alumina output associated with the reopening of WINDALCO's Ewarton alumina plant. Additionally, increased road rehabilitation in the aftermath of Tropical Storm Nicole would have spurred activities in the Construction industry.

Manufacture

Real value added for the Manufacture industry declined by an estimated 2.3 per cent for the calendar year 2010. This was influenced by fall-offs in the real value added for Food, Beverages & Tobacco (1.4 per cent) and Other Manufacturing (3.5 per cent). The Food, Beverages & Tobacco component was affected particularly by sluggish local demand as export of some goods increased relative to the comparable period in 2009. The performance in this component was further compounded by the fall off in sugar production which is heavily weighted in Food Processing. The Sugar production decline was attributed to the poor quality of sugar cane reaped which negatively affected the tonnes cane/tonnes sugar ratio.

The Other Manufacture component continued to be negatively impacted by the downturn in the Chemicals & Chemical Products, Non-Metallic Products and Metals, Fabricated Metal Products, Machinery & Equipments. Activities in the Chemical & Chemical Products was negatively affected by the low level of activities in the international ethanol market and the high cost of sugar on the international market which impacts the cost of wet ethanol which is imported by local producers of ethanol.

The downturn in the Non-Metallic Products and Metals, Fabricated Metal Products, Machinery & Equipment sub-industries was affected significantly by the downturn in local construction activities. The downturn in construction activities resulted in lower demand for products in:

- Non-Metallic Products such as: cement; cement blocks; pre-mix cement and tiles
- Metals, Fabricated Metal Products, Machinery & Equipment such as building fixtures and fittings.

Also affecting the Other Manufacture component of the Manufacture industry was the temporary cessation of production activities by the sole producer of Petroleum Products for maintenance purposes and lower demand for some petroleum products.

Construction

For January – December 2010, real value added for the Construction industry is anticipated to decline by -1.9 per cent. This performance was mainly attributed to reduced activity primarily in Building Construction and Building Installation sub-groups which reflected the general downturn in the economy. However, the Other Construction category which mainly includes civil engineering activities recorded growth due to an increase in the volume of emergency road repairs.

Agriculture

The industry is expected to decline by 5.0 per cent during October to December 2010 due to the impact of Tropical Storm Nicole. Based on the industry's performance for the 1st

nine months and projections for the fourth quarter, the industry is projected to grow by 0.9 per cent.

Wholesale & Retail Trade; Repair and Installation of Machinery

For 2010, real value added for the industry is forecast to decline by 1.8 per cent compared with calendar year 2009. The last quarter is projected to decline by 1.2 per cent for a four quarter decline over the period. The current economic downturn has impacted the industry evidenced by reduced sales and lower consumer spending.

Mining

For October – December 2010, real value added for the Mining & Quarrying industry increased by 20.2 per cent reflecting growth in alumina production. Alumina production grew by 30.2 per cent due mainly to the re-opening of Winalco's Ewarton plant, which was closed in the corresponding period of 2009. The expected improved performance in the fourth quarter in addition to the first nine months of the calendar year will result in the industry declining by 3.5 per cent for calendar year 2010.

Electricity & Water Supply

Real value added for the industry for 2010 is expected to decline by 4.3 per cent relative to 2009. This was fuelled mainly by contraction recorded in gross electricity generation as water production based on the projections has increased. The amount of electricity made available to the grid in 2010 fell by 1.8 per cent to 4 137.4 million kWh. This performance reflected declines of 2.6 per cent and 0.3 per cent in generation from the JPSCo and non-JPSCo sources, respectively. Water production is also expected to decline due to the drought conditions in the first half of 2010.

Transport Storage & Communication

This industry is expected to contract by 2.3 per cent for 2010, reflecting downturns in both the Transport & Storage and Communications segments. Reduced activities in the Transport & Storage segment was primarily influenced by a curtailment of operations at Air Jamaica and lower cargo movement at Kingston wharves.

Hotels & Restaurants

For 2010, real value added for the Hotels and Restaurants industry is estimated to increase by 3.1 per cent relative to the corresponding period of 2009. This growth is expected from increased stopover arrivals from the major source markets.

Finance & Insurance Services

It is anticipated that the Finance & Insurance Services industry will decline by 4.0 per cent for 2010. This decline is reflective of the impact of the general downturn in the economy and the effect of the Jamaica Debt Exchange programme on net interest income at financial institutions.

4.0 Projected Performance

4.1 Calendar Year, 2011

Global Economy

The global economy is projected to grow by approximately 4.4 per cent in 2011. Associated with this, credit markets, investment, output and trade are expected to improve. Despite the monetary efforts to cool down the Chinese economy, growth will be led by Emerging and Developing Countries, which combined, are projected to grow by 6.4 per cent, almost three times the 2.2 per cent projected for the Developed world. Against this background commodity prices are expected to continue to increase for 2011, albeit at a slower pace than occurred during 2010. Demand will continue to be strong from emerging market economies and expand in recovering developed countries. Disruptions to supply and declining inventory levels are expected to contribute to the upward trend in prices.

Domestic Economy

An expansion in real GDP of 1.9 per cent is projected for the Jamaican economy during 2011. This out-turn would represent the first calendar year increase since 2007 when the economy grew by 1.4 per cent. This improved performance is predicated on developments in both the international and domestic economy. The country is expected to benefit from continued recovery in the global economy, specifically with Jamaica's main trading partners showing signs of improvement. World Output is projected to grow by 4.4 per cent during 2011 with the USA, Jamaica's main trading partner, expected to expand by 2.7 per cent²⁷. This should augur well for exports, primarily tourism, bauxite/alumina as well as for increased remittance inflows. Domestically, aggregate demand is expected to show signs of improvement during 2011, as business confidence which had started to rise primarily during the latter part of 2010, is expected to continue increasing during 2011. This is expected to translate into increased demand for goods and services.

²⁷ "World Economic Outlook", IMF October 2010

Table 5.11. Projected Change In Value Added By Industry At Constant (2003) Prices

Industry	FY 2010/11	Jan-Dec 2011	FY 2011/12
Goods Producing Industry	0.4	4.3	4.4
Agriculture, Forestry & Fishing	-0.4	3.0	3.3
Mining & Quarrying	24.0	38.2	33.8
Manufacture	-2.4	0.3	0.8
<i>of which: Food, Beverages & Tobacco</i>	-0.9	0.3	0.5
<i>Other Manufacturing</i>	-4.3	0.4	1.1
Construction	-1.0	1.1	1.2
Services Industry	-1.2	1.2	1.4
Electricity & Water Supply	-3.6	2.9	3.7
Transport, Storage & Communication	-2.5	2.1	2.3
Wholesale & Retail Trade; Repair and Installation of Machinery	-1.2	0.9	1.0
Finance & Insurance Services	-3.2	0.9	1.4
Real Estate, Renting & Business Activities	-0.8	0.5	0.7
Producers of Government Services	-0.1	-0.1	-0.1
Hotels and Restaurants	2.3	3.8	4.0
Other Services	0.2	0.8	0.9
Less Financial Intermediation Services Indirectly Measured (FISIM)	-5.5	0.4	1.0
Total GDP at basic prices	-0.6	1.9	2.1

Source: STATIN & PIOJ

Higher value added is projected for the four quarters of the calendar year in all industries with the exception of Producers of Government Services expected to record growth. Industries expected to register the strongest increase are Mining & Quarrying and Hotels & Restaurants. The Mining & Quarrying industry is projected to grow by 38.2 per cent. This is attributable mainly to the proposed reopening of WINDALCO's Kirkvine plant during the second half of 2011. The Hotels and Restaurants industry is expected to register continued robust growth consistent with economic recovery in the main source markets coupled with increased marketing in emerging markets.

Down-side risks to the projected growth out-turn for the economy are:

- higher than anticipated rise in international commodity prices
- adverse weather conditions

Agriculture

For 2011, real value added for the Agriculture, Forestry & Fishing industry is projected to increase by 3.0 per cent. This is based on the continuation of favourable weather conditions as well as the Ministry of Agriculture's Production and Productivity Improvement Programme aimed at improving best practice methodologies in the industry. The improved performance should also be influenced by the Ministry's focus on

increased marketing and extension services as well as the integration of primary production into the value chain by the linking of farmers and buyers in the retail, agro-processing and tourism industries.

Electricity & Water

Growth is expected in the Electricity & Water industry in 2011, supported by higher gross electricity and water production. The higher value added projected for January-March 2011 is expected to continue in ensuing quarters. The performance for 2011 should emanate from:

- increased electricity demand, reflecting increased economic activity as the country recovers from the economic recession
- higher water production compared with the corresponding period of 2010 when there was reduced production consequent on the drought conditions that prevailed.

Further expansion in the industry may be stymied by higher crude oil prices. This should result in an up-tick in electricity cost, thereby reducing demand as consumers employ conservation strategies to ease the cost burden.

Nevertheless, the industry should benefit from a boost in electricity and water production as projects to expand and improve supplies are implemented.

Transport, Storage & Communication

Real value added for the Transport, Storage and Communication industry is expected to increase in 2011 relative to 2010 as growth is forecast for both components of the industry. This will be facilitated by, among other thing, higher cargo movement associated with:

- increased mining and quarrying activities consequent on the reopening of the Kirkvine plant
- general growth in merchandize trade volumes as the economy continues to recover from the global recession
- growth in cruise activities, due in part to the opening of the Falmouth Pier
- increased passenger movements consistent with the projected increase in stopover arrivals.

Additionally, the industry should benefit from the implementation of new projects and continued expansion in telecommunication activities.

4.2 Fiscal Year 2010/11²⁸

For FY2010/11, the Jamaican economy is expected to decline by 0.6 per cent. This represents a slowing in the pace of decline compared with FY 2009/10 when the economy declined by 2.5 per cent. The estimated out-turn for FY 2010/11 is based on a

²⁸ FY 2010/11 real GDP figures are based on official April-September 2010 figures from STATIN and preliminary October 2010 – March 2011 estimates from the PIOJ.

contraction in the first half of the fiscal year and a projected moderate increase in the second half of the fiscal year.

During the first six months of FY2010/11, the economy contracted by 1.4 per cent with declines of 0.7 per cent for the Goods Producing and 2.0 per cent for the Services industry. Domestic demand remained weak due mainly to the prolonged adverse impact of the global economic crisis on the purchasing power of individuals. Economic activity was also constrained by: (i) the adverse impact of the Jamaica Debt Exchange programme on financial institutions; (ii) drought conditions which impacted some industries during April-June 2010; (iii) the negative effect of security operations in sections of Kingston and St. Catherine during May 2010; and (iv) the passage of Tropical Storm Nicole during the last week of September 2010.

Marginal growth during the final six months of FY2010/11 will be influenced by the projected increase in real GDP for the January-March 2011 quarter as the economy is expected to contract during October –December 2010. The projected growth during January-March 2011 will represent the first quarterly increase since July-September 2007. Most industries are expected to register higher value added during this final quarter of the fiscal year with the strongest expansion projected for the Mining & Quarrying industry.

Manufacture

For Fiscal Year 2010/2011, it is anticipated that real GDP for the Manufacture industry will decline by 2.4 per cent. This performance is predicated on declines in two main components of the industry – Food, Beverages & Tobacco (down 0.9 per cent) and Other Manufacturing (down 4.3 per cent) as it is expected that the supply and demand constraints affecting the industry are expected to persist for the last three months of FY 2010/11 and as such will be unable to outweigh the declines anticipated for the first nine months of the fiscal year. Declines in the Food, Beverages & Tobacco and Other Manufacturing industries are expected to be tempered by the expansion of exports and the development of new products.

Wholesale & Retail Trade; Repair and Installation of Machinery

For Fiscal Year 2010/11, real value added for the Wholesale & Retail Trade industry is projected to decline by 1.2 per cent relative to the previous fiscal year. This decline is predicated on continued contractions in the domestic economic environment. Consequently, a reduction in total sales is anticipated, resulting from: (i) continued weak consumer demand for goods and services associated with reservations about future job prospects and increases in income; and (ii) a slowdown in domestic industries associated with WRTRIM, specifically the Construction and Manufacture industries and weak consumer demand. The out-turn of the industry is against the background of a weak but improving domestic macroeconomic conditions, as evidenced by: (i) increasing business confidence; (ii) expansions in loans and advances to the industry and for consumption purposes; and (iii) a higher level of remittances.

Electricity & Water

For FY 2010/11, real value added for the industry is anticipated to contract by 3.6 per cent. This output is expected despite the projected 2.1 per cent increase in real value added for the January-March 2011 quarter, which will be insufficient to outweigh the declines recorded in the other quarters of the fiscal year.

Transport, Storage & Communication

For FY 2010/11, real value added for the Transport, Storage & Communication industry is anticipated to fall by 2.5 per cent, mainly due to the declines reported in the first three quarters of the FY as higher value added is projected for the January-March 2011 quarter. The higher value added in January-March 2011 is predicated on increased activities in the Transport & Communication segment, given the anticipated up-tick in mining activities; passenger movements associated with tourism; and other cargo movements associated with improvements in trade consequent on the recovery in the global recession.

4.3 Fiscal Year 2011/12

The Jamaican economy is projected to record real GDP growth of 2.1 per cent during FY2011/12 following three consecutive fiscal years of contractions. The Goods Producing and Services Industry are expected to increase by 4.4 per cent and 1.4 per cent, respectively. Improved global economic conditions should positively influence activities in the domestic economy. Consistent with the projected out-turn for 2011, the Mining & Quarrying and the Hotels & Restaurants industries are expected to be the main drivers of growth in FY 2011/12. Strong recovery is also projected for the Electricity & Water Supply industry, influenced mainly by increased electricity demand associated with the expected growth in productive activity.

Table 5.12. FY 2011/12 Industry Assumptions

Goods Producing Industry	Assumptions
Agriculture, Forestry & Fishing	Increased Domestic and Export Crop production due to increased demand. Higher value added is also reflective of recovery from TS Nicole and drought conditions which occurred in the previous fiscal year. Growth will be facilitated by increased use of technology and best practices (Green House, Irrigation and the Agriculture Production and Productivity Programme).
Mining & Quarrying	Higher alumina and crude bauxite production influenced by strong demand in China, Europe and North America. Strong alumina growth also associated with the proposed reopening of WINDALCo's Kirkvine plant in the second half of 2011.
Manufacture	Increased domestic and global demand primarily for beverages and processed food. Increased activity in the Construction, Mining & Quarrying and Agriculture industries should spur demand for manufactured products which are inputs into these industries.
Construction	Growth in infrastructural activity primarily road construction and repairs. General improvement in the economy would also influence an increase in the building construction component of the industry.

Table 5.12 (continued). FY 2011/12 Industry Assumptions

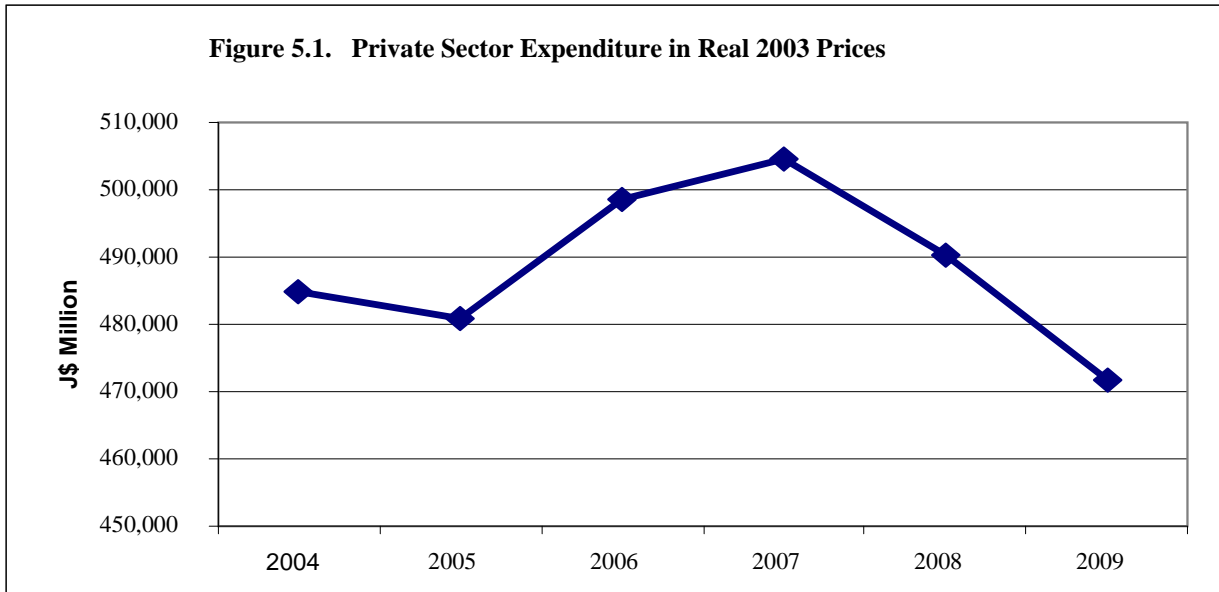
Services Industry	Assumptions
Electricity & Water	This industry will benefit from increased economic activity which will result in increased demand for electricity. Growth in the industry also reflects recovery from drought conditions which prevailed during some months in the previous fiscal year.
Wholesale & Retail Trade; Repairs and Installation of Machinery	Increased domestic demand linked to higher economic activity which will spur growth in this industry. Increased activity specifically in the Agriculture, Manufacture and Construction industries should also result in higher value added.
Hotels and Restaurants	Higher economic growth in our main source market (USA), other traditional markets as well as increased marketing in new areas will result in increased stopovers. The restaurant component of the industry should also register growth, a recovery from the decline registered in the previous fiscal year.
Transport, Storage & Communication	Water transport will be influenced by increased cargo movements associated with increased Mining & Quarrying activity linked to the reopening of the Kirkvine plant; general growth in merchandise trade volumes; growth in cruise ship arrivals. Air transport will be positively influenced by increased passenger movements consistent with projected increase in stopovers.
Finance & Insurance Services	Increased economic activity within an environment of improved investor and business confidence and low interest rates should increase the demand for loans and advances.
Real Estate, Renting & Business Activities	A rise in the demand consistent with projected recovery in the economy.
Government Services	Continued fiscal consolidation.
Other Services	Growth in this industry will be strongly influenced by increased tourism related activities as well as increased demand for personal services.
Less Financial Intermediation Services Indirectly Measured	Growth in the provision of financial services consistent with the projected higher demand for business services.

Source: Compiled by the PIOJ

5.0 Key Risks to Achieving Economic Growth

Production conditions continue to be negatively affected by long-standing structural constraints, including:

- high cost of doing business (financing, taxes, etc.)
- high levels of crime (notwithstanding a reduction in violent crimes during the latter half of 2010)
- high energy costs
- inadequate provision of public infrastructural services (both physical and non-physical infrastructure)
- inadequate stocks of human capital
- continued weakness in the real sector, as evidenced by a decline in private credit and rise in non-performing loans, which are leading indicators of real-sector business confidence.



Real GDP is projected to grow by 2.1 per cent in FY 2011/12 on the basis of favourable assumptions about production and demand conditions (see Table B11). However, the continued negative impact of the above-mentioned structural weaknesses combined with likely negative impact of higher commodity prices (particularly oil and grains), will weaken the likelihood of attaining the projected growth target.

Current growth prospects are based on extremely fragile foundations and the PIOJ perceives most of the risks to its growth forecasts to be on the downside. The fragility of growth is underpinned by the following down-side risks:

- uncertainty regarding the robustness of a nascent global recovery in output and trade
- a further weakening of aggregate demand consequent on continued fiscal contraction, in an environment where private sector “crowding-in” has exhibited significant inertia
- further erosion of social capital under the conditions of: (a) a slower than projected decline in poverty rates, and (b) continued weak labour-market demand
- vulnerability to weather-related shocks
- continued low labour (and capital) productivity due to structural constraints that were previously highlighted.

By retarding growth, these risks may threaten the sustainability of the current fiscal consolidation programme. In the absence of sustained growth, a fiscal consolidation programme will have to be supported by unsustainable cuts in public expenditures or additional revenue enhancement, the limits of which will be quickly reached. Such additional expenditure cuts and/or additional tax or revenue enhancing measures would further compound the pro-cyclicality of the current fiscal consolidation programme. Experience in other emerging economies operating under IMF programmes of fiscal

consolidation confirms this pro-cyclical tendency, which is further aggravated by the nature of the political cycle.

There are current signs that these risks are real, for example, in the underperformance of certain categories of fiscal revenues (April – December 2010), in particular, PAYE and GCT (local) tax collections.

6.0 Policies to Address the Risks to Economic Growth

The need to reduce the economy-wide risks to the sustainability of the current fiscal consolidation strategy and to achieving a higher growth target, therefore, compels an urgent re-consideration of the medium-term macroeconomic policy agenda to focus on initiatives that achieve the following objectives:

- provide a stimulus to aggregate demand, in the short-term
- enhance the resilience of the economy to shocks
- reduce or remove, over the medium-term, critical structural constraints to long-term growth
- improve the social inclusiveness of economic policies, which would include arresting and reversing the upward trend in poverty and addressing urban-rural imbalances.

Table 5.13. Selected Natural Disasters & Their Estimated Economic Impact

Event	Year	Intensity	Cost (\$J Billion)	Impact (% GDP)
Hurricane Michelle	2001	Category 4	2.52	0.80
May/June Flood Rains	2002	-	2.47	0.20
Hurricane Charley	2004	Category 4	0.44	0.02
Hurricane Ivan	2004	Category 3	36.90	8.00
Hurricanes Dennis & Emily	2005	Category 4	5.98	1.20
Hurricane Wilma	2005	Category 5	3.60	0.70
Hurricane Dean	2007	Category 4	23.80	3.40
Tropical Storm Gustav	2008	-	15.24	2.00
Tropical Storm Nicole	2010	-	20.50p	1.90
Total			113.77	

p = preliminary

Source: Compiled by PIOJ

Of special note regarding the fragility of our growth projections, Table 5.13 highlights that during the last decade, Jamaica has suffered from several natural disasters, with Hurricane Ivan being the most significant. Combined, these disasters have cost the country approximately \$114 billion or approximately 2.1 per cent of GDP annually (compare this to the optimistic baseline forecast of 2.1% real GDP growth for FY

2011/12). These extreme weather events have also contributed significantly to either undesirable budget imbalances or unplanned (and oftentimes, unproductive) cuts in expenditures to finance post-disaster rehabilitation.

In light of these imperatives, the PIOJ is proposing adoption of a Growth-Inducement Strategy focused on a mix of short and medium-term measures featuring:

- Targeted infrastructure spending, which is intended to improve the resilience of the built environment, contribute to increased agricultural production especially through rebuilding and maintaining farm roads, generate an immediate injection of aggregate demand and income, and improve social inclusion in volatile and vulnerable communities.
- A targeted and broad-based Community Renewal Programme, aimed at ameliorating crime and improving social cohesion in targeted communities.
- A package of medium-term policy reforms, including tax reform, which address the removal of structural constraints and improving cost-competitiveness of the economy.
- A strengthening of value chain linkages between tourism, agriculture, agro-processing, and local services.

Early adoption and implementation of this Growth Inducement Strategy is projected to provide significant immediate benefits beginning in 2011 in terms of the following key objectives:

- a. job creation
- b. GDP growth
- c. poverty reduction.

In addition, these initiatives offer a new opportunity to unlock latent wealth tied up in potentially productive assets (financial assets, physical capital, land, and labour) that now lie idle and, thereby, to create a strong platform for sustaining the momentum of growth in the medium and longer term.

Based on an analysis of economic impact, primarily using the PIOJ's Input-Output model, a package of short-term measures which target an acceleration of public works and community renewal projects is projected to yield the following benefits:

- **Increased economic growth, employment and tax revenues:** relative to a baseline projection of 2.1% for 2011, accelerated short-term measures could yield an additional 1.6 percentage points (or \$19.1 billion) to 3.1 percentage points (or \$37.6 billion) of real GDP growth. Higher GDP growth could result in an additional 3,075 - 3,142 jobs, and generate an additional \$4.5 billion - \$8.9 billion in tax revenues. These revenues would represent a net inflow to the treasury, since the PIOJ proposals calls for the utilization of resources that have already

been sourced but not utilized due to a lack of fiscal space. These resources include a mix of grant funding and low-cost concessionary loans.

- **Reduced Poverty:** relative to a baseline projection of poverty rates in the range of 16.5% -18.1% for 2011, the PIOJ's proposed programme of short-term measures could reduce the poverty rate by 2.0 - 2.2 percentage points to within a range of 14.8% – 16.4%.

Chapter 6

Assessment of and Recommendations for the Current Fiscal/Financial Programme ²⁹

Summary

While the Country's over-performance in meeting the financial targets under the February 2010 IMF Fiscal Consolidation SBA deserves the high praise it has been getting, PIOJ analysis compels bringing immediate attention to the corresponding significant negative out-turns in the real and social sectors, and in influential leading economic indicators.

Below and attached are data and analysis in support of the PIOJ's assessment which concludes the following:

1. The current recession, where Jamaica is producing below its potential, is being worsened by the pro-cyclical nature of the IMF programme.
2. Without immediate adjustment, the economic programme will achieve neither financial or fiscal stability and sustainability, nor sustainable job-creating economic growth, in the medium-term.
3. Near-term political economy will pose a critical challenge to the sustainability, and hence credibility of the current economic programme and policy stance.

Specifically there has been:

- rising levels of unemployment and poverty
- rise in real interest rate and fall in demand for loans
- rise in bad debts
- fall in consumer confidence in line with a decline in purchasing power and fears of future job losses.

²⁹ In consultation with the Economic Planning and Research Division, PIOJ. Data and analysis in this Chapter first presented on September 16, 2010.

1.0 Introduction

1.1 While the country has successfully passed both IMF tests, based on prudent fiscal management thus far, the PIOJ is foreseeing potential danger to the socio-economic environment on the horizon if Jamaica continues with the current pace of fiscal consolidation. Given the current global economic environment, characterized by the slower than anticipated recovery, the present pace of fiscal consolidation may lead to a worse than anticipated deterioration in the socio-economic indicators. This may hinder Jamaica's recovery efforts, possibly resulting in a double-dip recession and consequently threatening the success of the fiscal consolidation programme.

1.2 Slower than expected recovery in external demand coupled with weak domestic demand will inhibit the very critical private sector absorption. The recent socio-economic developments and trends, coupled with the pending implementation of the recommendations for Public Sector Transformation, have implications for:

- further contractions in output, stalling the projected recovery process in 2010
- halting the positive recovery trends in employment levels
- further declines in consumer confidence.

1.3 The International Monetary Fund (IMF), in both reviews, highlighted that going forward the performance of the programme could be adversely affected by the costs associated with the security situation in May 2010 and recent external shocks. These concerns are critical, particularly due to the absence of shock absorbers in the current programme.

1.4 Given the pro-cyclical nature of the programme, the PIOJ is recommending, among other things:

- an adjusted fiscal space, in combination with key structural changes in the IMF SBA, to facilitate the incorporation of a growth-inducement strategy which would make the financial/fiscal consolidation effort economic-growth-friendly and, hence, sustainable.

2.0 Expected Outcome of the Fiscal Consolidation Programme

2.1 Fiscal Consolidation is the process by which a country controls its rising debt and deficits through increasing revenue and/or reducing expenditure. Empirical studies suggest that reducing expenditure is more likely to be sustainable and produce better economic outcomes, as increasing taxes depress economic activities. Conditions for fiscal consolidation leading to economic growth include the following:

- **Private Sector** - reduction in government expenditure through structural reforms, signals to the private sector that the government will be smaller. This implies less borrowing, which puts downward pressure on interest rates, thus stimulating private investment and growth and, further, reduces market expectation of future tax increases, which will spur private investment. This requires that the government withdraws from areas in the economy in which it

creates allocative inefficiencies, while private sector expansion is expected to replace government contraction.

- **Household Sector** – government consolidation signals lower taxation in the future. This should lead to a higher than expected disposable income, hence to an increase in consumption (i.e. demand for goods & services).
- **Labour Market** – expansion in private sector business activity leads to an increase in demand for labour, hence in employment, to facilitate the expansion of existing and new industries.

2.2 Thus, economic growth associated with fiscal consolidation, is underpinned by the expectations of firms and households regarding future prospects. If firms and households do not believe that the programme is sustainable and, instead, expect that the government will continue to crowd out private investment and/or raise taxes, they will not invest or increase consumption in the short-run.

3.0 Jamaica's Current Fiscal Consolidation Programme

3.1 The Fiscal Consolidation Programme pursued by the Government of Jamaica (GOJ), includes fiscal consolidation through rationalization of the public sector (freeze in wages & salaries, cutbacks in government programmes, etc); increase in taxes; and a Debt Exchange Programme (JDX) to lower interest cost and extend maturity of government instruments. These measures, in addition to the proposed new Fiscal Responsibility Laws, have assisted in reducing instability in the economy, through reducing: (a) the market expectation of future tax increases, and (b) the crowding-out effects of government borrowing.

3.2 However, the Fiscal Consolidation Programme, which is aggressively pro-cyclical, is being implemented at a time when Jamaica is undergoing a recession, and thus has exacerbated the recession and delayed the recovery of the economy. This is reflected in a decline in:

- private sector demand for credit, despite the lowering of interest rates
- demand for the US dollar and collapse of private sector demand
- output in most industries, resulting in increased unemployment and private-sector job losses totalling approximately 86,600 since October 2008³⁰
- household demand for credit.

3.3 The Fiscal Consolidation Programme has been further hampered by shocks that have negatively affected the outlook for the Jamaica economy. These shocks include:

- longer than anticipated global recession (fears for double-dip recession for the US, Jamaica's major trading partner)

³⁰ October 2008 was the last period of recorded employment growth.

- shrinking fiscal space due largely to unprogrammed expenditure as a result of unplanned events such as the May 2010 Security Operations in West Kingston³¹. (The smaller fiscal space restricts the ability of government to engage in growth inducing programmes.)
- loss of wealth associated with unregulated Financial Organisations (OLINT, Cash Plus).

3.4 The situation is further compounded by Jamaica's economic structural deficiencies, which have slowed the pace of recovery efforts. Structural deficiencies identified in the Jamaican economy include:

1. **High Debt to GDP ratio:** This condition has the effect of:
 - a. preventing the Government of Jamaica (GOJ) from running countercyclical policy to stimulate the economy during the recession
 - b. reducing the GOJ discretionary expenditure (non-debt expenditure), which limits the government's ability to spend on growth enhancing areas (education, infrastructure, security, etc)
 - c. putting pressure on the supply of loanable funds, which crowds out private investment.
2. **Concentrated Export Base:** The Jamaican economy's export base is highly concentrated, heavily dependent on the export of Bauxite & Alumina and Tourism. This has led to the Jamaican economy being highly susceptible to shocks.
3. **Inadequate Labour quality:** The quality of the Jamaican labour force³² has also negatively affected Jamaica's ability to reallocate workers to areas that are more economically viable, thus constraining the country's ability to recover from the recession and move into higher productivity activities requiring skilled labour. In the 2010-11 Global Competitiveness Report, Jamaica ranked 80 out of 139 in the category Higher Education & Training. Additionally, the country's inadequately educated workforce was ranked as the fourth most problematic factor for doing business.
4. **Mobility of Capital:** The financial sector meltdown in the mid 1990s and the subsequent reform of financial regulations, together with the GOJ's large appetite for debt financing, has led to a financial sector that is heavily dependent on government securities and is relatively risk averse when lending to the private sector³³. The current recession environment (11 consecutive quarterly declines in GDP) has also led to: (i) increase in the stock of bad debts, resulting in

³¹ ECLAC estimates - \$13 billion, while the Ministry of Industry and Investment estimates the fallout at \$18 billion.

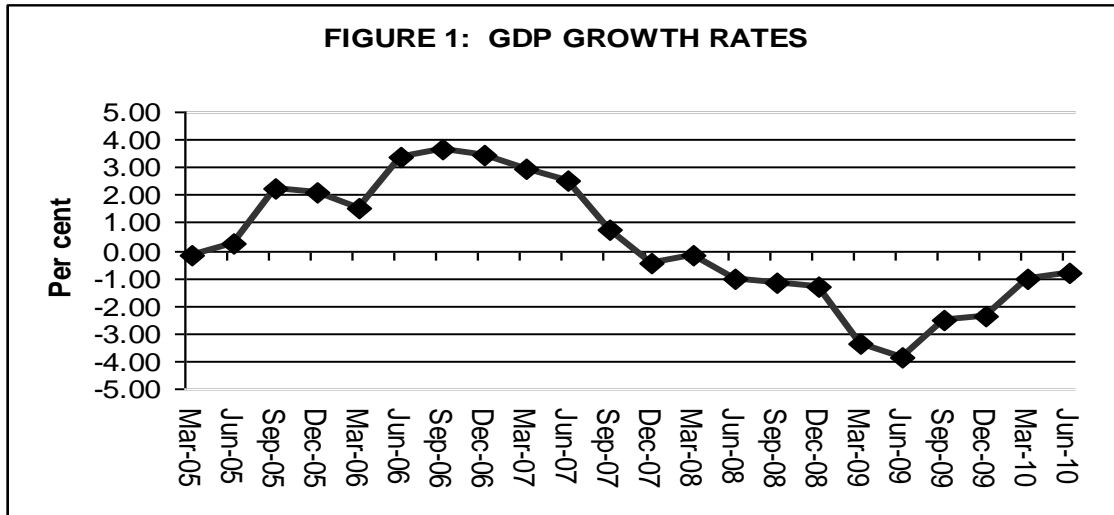
³² Approximately 67.7% of the employed labour force did not have "Basic CXC or above" qualifications in 2008.

³³ Access to financing was ranked fourth most problematic factor for doing business in Jamaica in the Global Competitiveness Report.

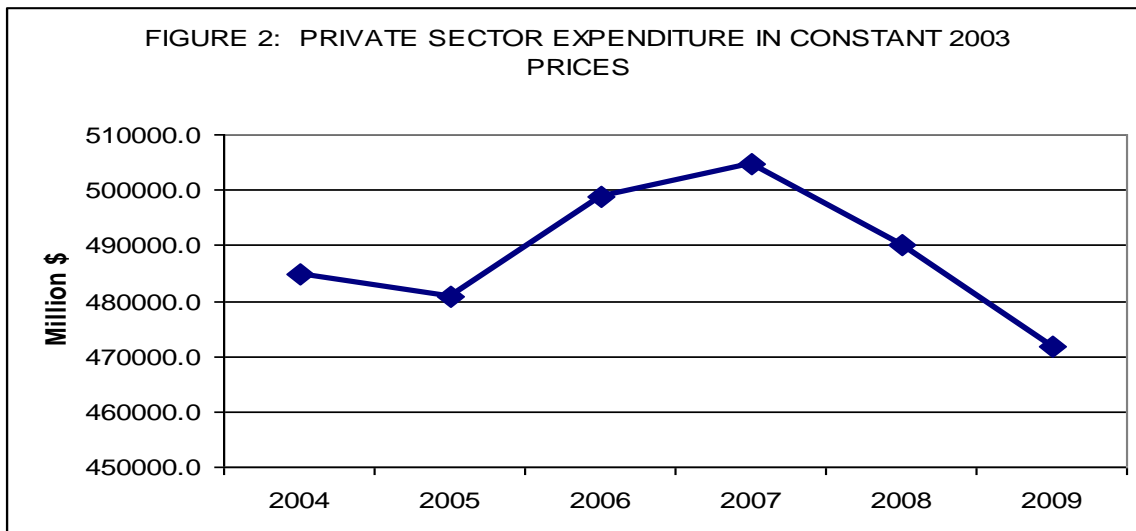
heightened risk aversion of financial institutions and (ii) uncertainty about future prospects, leading to consumers and firms postponing spending and investment decisions.

4.0 Socio-economic Trends under the Current Fiscal Consolidation Programme

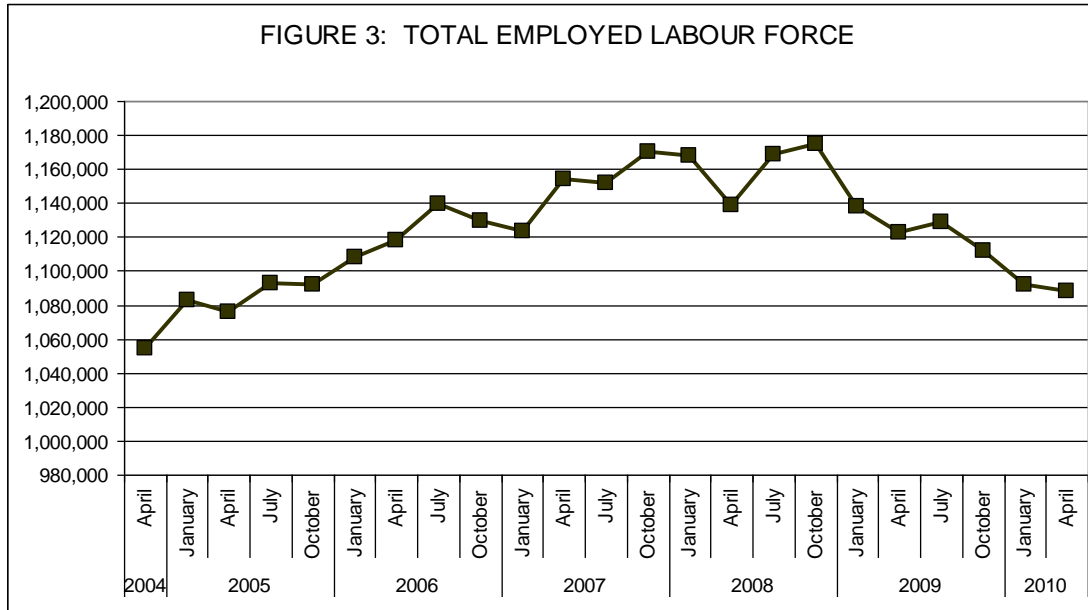
4.1 **Decrease in Real GDP:** Jamaica has experienced 11 consecutive (year over year) quarterly declines, starting in the fourth quarter of 2007. Since bottoming out in the second quarter of 2009, the economy has been declining at a slower pace (see Figure 1).



4.2 Real value of private sector expenditure has been declining since 2007 (see Figure 2), highlighting the negative impact of the global economic crisis on the Jamaican economy.



4.3 **Decline in Employment Levels:** The total Employed Labour Force amounted to 1,087,900 persons in April 2010, down from a peak of 1,174,500 in October 2008 (see Figure 3).



4.3.1 **Pre-Global-Crisis Impact:** Prior to the impact of the crisis on the economy, most industries recorded growth in employment. Between April 2004 and October 2008 an estimated 119,900 jobs were added. The industries registering employment growth in excess of 10,000 persons during the period were Agriculture, Hunting, Forestry & Fishing; Education; Real Estate, Renting & Business Activities; and Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods. The industries showing estimated job losses were Private Households with Employed Persons; Manufacturing; and Industry Not Specified (Table C1).

Table 6.1. Employed Labour Force by Industry Group, April 2004 –October 2008

Industries	Apr-04	Oct-08	Jobs Gained/Lost
Agriculture, Hunting, Forestry & Fishing	196,200	223,600	27,400
Education	48,800	72,200	23,400
Real Estate, Renting & Business Activities	39,400	54,700	15,300
Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods	204,800	219,500	14,700
Health & Social Work	23,900	33,600	9,700
Public Administration & Defence; Compulsory Social Security	43,500	52,900	9,400
Hotels & Restaurants Services	70,300	78,600	8,300
Financial Intermediation	13,500	21,600	8,100
Transport, Storage and Communication	76,500	84,200	7,700
Other Community, Social and Personal Service Activities	53,400	58,400	5,000
Mining & Quarrying	5,500	9,300	3,800
Electricity, Gas and Water Supply	6,500	9,100	2,600
Construction and Installation	105,300	105,700	400
Industry Not Specified (Incl. Extra-Territorial Bodies)	6,700	6,400	-300
Manufacturing	86,100	81,100	-5,000
Private Households with Employed Persons	74,200	63,600	-10,600
Total Employed Labour Force	1,054,600	1,174,500	119,900

Source: Statistical Institute of Jamaica

4.3.2 Post-Crisis Impact: Comparing the latest employment figures (April 2010) to the last time growth was recorded in employment (October 2008) (see Figure 2) it is seen that a cumulative 86,600 jobs were lost (Table C2). This reflects declines mainly in:

- I. Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods which stemmed from the decline in purchasing power
- II. Construction & Installation associated with the completion of significant construction projects in an earlier period and decline in purchasing power over the period
- III. Transport, Storage & Communication which was highly impacted by the fall-out in the Mining & Quarrying industry due to the closure of alumina plants. Also a gloomy economic environment both internationally and locally led to reduced air traffic which had an impact on persons in that sub-industry.

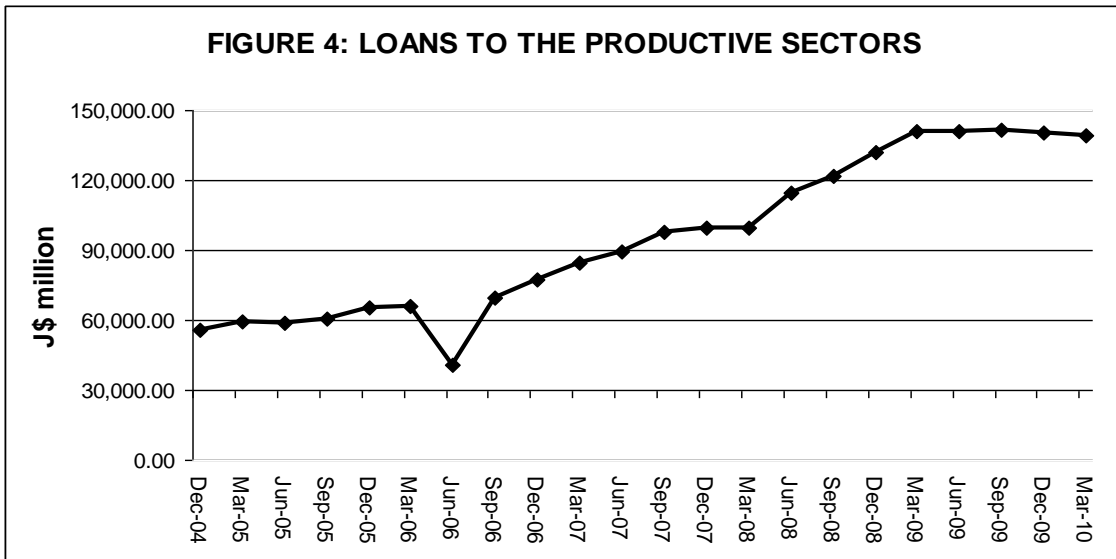
Table 6.2. Employed Labour Force by Industry Group, October 2008 - April 2010

Industries	October 2008	April 2010	Jobs Lost
Wholesale & Retail, Repair of Motor Vehicle, Cycle, Personal & Household Goods	219,500	205,000	-14,500
Construction and Installation	105,700	92,900	-12,800
Transport, Storage and Communication	84,200	72,000	-12,200
Health & Social Work	33,600	22,500	-11,100
Other Community, Social and Personal Service Activities	58,400	49,200	-9,200
Mining & Quarrying	9,300	3,000	-6,300
Education	72,200	66,500	-5,700
Manufacturing	81,100	76,000	-5,100
Private Households with Employed Persons	63,600	59,400	-4,200
Electricity, Gas and Water Supply	9,100	6,600	-2,500
Real Estate, Renting & Business Activities	54,700	52,200	-2,500
Industry Not Specified (Incl. Extra-Territorial Bodies)	6,400	4,200	-2,200
Public Administration & Defence; Compulsory Social Security	52,900	51,100	-1,800
Hotels & Restaurants Services	78,600	79,000	400
Agriculture, Hunting, Forestry & Fishing	223,600	224,500	900
Financial Intermediation	21,600	23,800	2,200
Total Employed Labour Force	1,174,500	1,087,900	-86,600

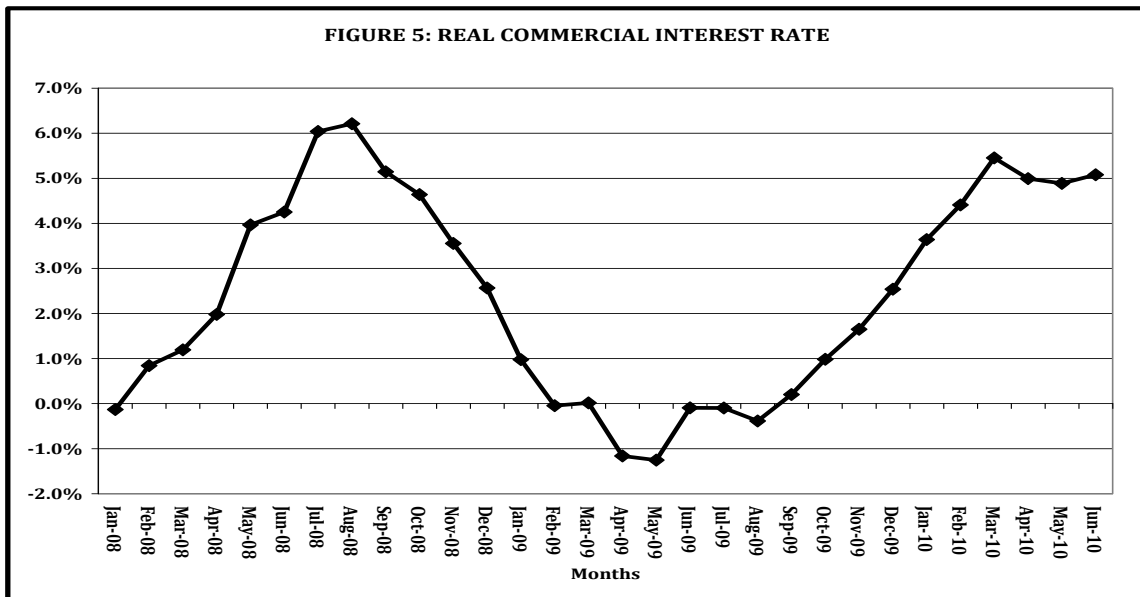
Source: Statistical Institute of Jamaica

Three industries recorded increases in employment over the period, Agriculture, Forestry & Fishing, Hotels & Restaurants Services, and Finance & Insurance Industries. This increase in employment is consistent with the value added recorded within the industries over the period.

4.4 Decrease in Loans & Advances: Since the intensification of the impact of the global recession on the Jamaican economy, the stock of Loans & Advances to the Productive sector have tapered off (see Figure 4) indicating the general ‘wait and see’ approach adopted by the business sector in light of the uncertainty of the extent of future job cuts and its impact on aggregate demand. Additionally, the recession has put a downward pressure on prices, thus adversely affecting the value of collateral which negatively impact investors’ chances of getting a loan.

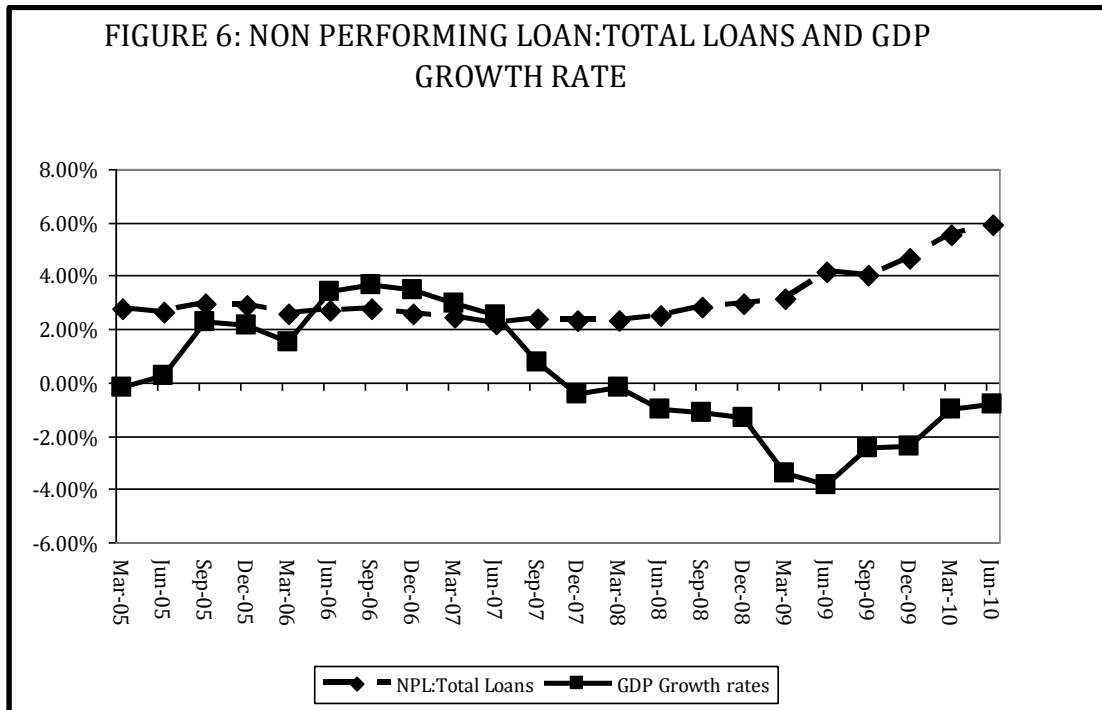


4.5 Increase in Real Commercial Interest Rate: Real interest rate reached 5.5 per cent in March 2010 (see Figure 5), turned downwards to 4.9 per cent in June 2010 but has started to turn up again, reflecting a faster decline in inflation than the nominal interest rate, which is expected to continue in the short-term.

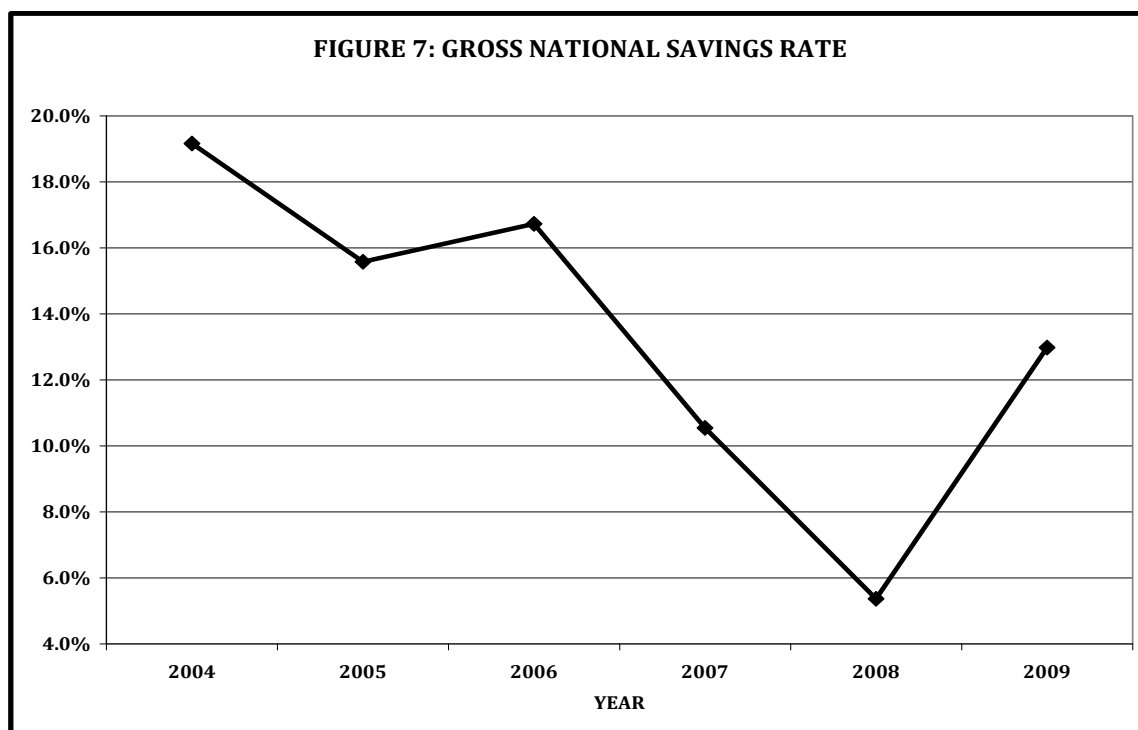


4.6 **Financial Shocks:** The collapse of the Unregulated Financial Organisations (Olint and Cash Plus) and the JDX led to a reduction in real wealth of Jamaicans. This has constrained the growth in consumption and investment.

4.7 **Increase in Non-Performing Loans:** Increase in the ratio of non-performing to total loans is driven by the decline in GDP and employment, as firms' revenue losses and workers' job losses have led to a default on loan payments (Figure 6).



4.8 **Increase in the Savings rate:** Uncertainty associated with the ending of the recession and future job losses has led to an increase in the savings rate, as firms and households delayed purchasing activities (Figure 7).



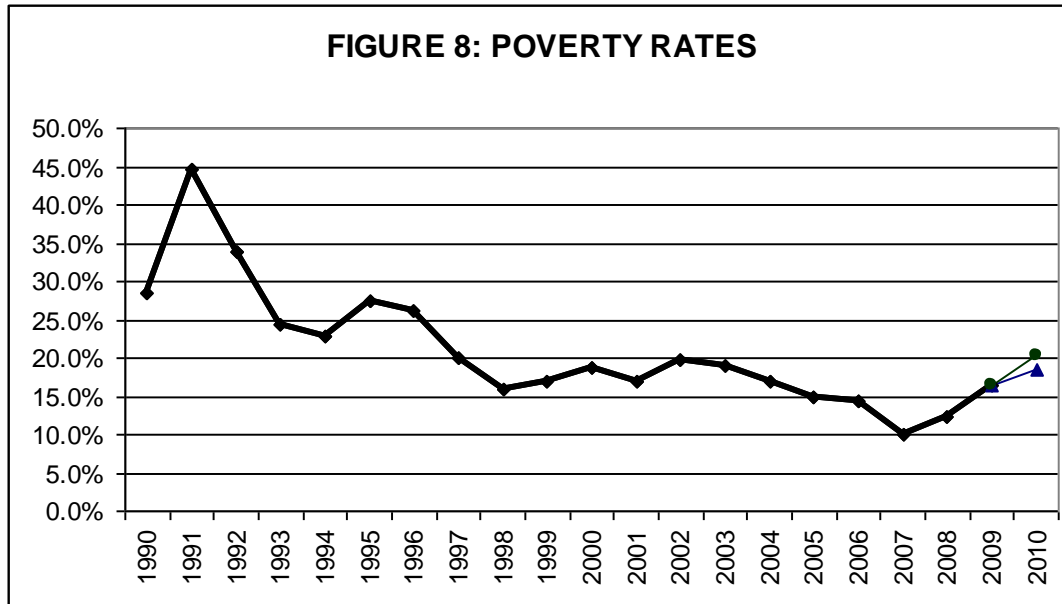
4.9 Slower than anticipated recovery in the Global Economic Environment: Slower than anticipated growth in the USA, coupled with instability associated with the highly indebted European economies, may potentially have a negative impact on the demand of goods and services produced by Jamaica thereby slowing the recovery process.

4.10 Increase in Poverty: Poverty has increased to 16.5 per cent of the population in 2009 from 9.9 per cent in 2007 (see Figure 8). The increase in poverty since 2008 has effectively undermined the declines observed over the past eight years. Poverty has increased in all regions since 2008 with KMA and Rural Areas recording the largest increases. The employed labour force has declined by 79,600 persons between January 2008 and April 2010.

Table 6.3. Poverty Rates (percent)

Region	2007	2008	2009	2010
KMA	6.2	7	12.8	n/a
Other Towns	4.0	10.7	10.2	n/a
Rural Areas	15.3	17.0	22.0	n/a
Jamaica	9.9	12.3	16.5	18.5 - 20.3

Source: Jamaica Survey of Living Conditions



4.10.1 The poverty rate projection for 2010 is in the range of 18.5% - 20.3%. This represents a projected increase in the range of 2.0% - 3.8%, which is predicated on the following:

- **decline in the level of employment:** 1,087,900 persons were employed in April 2010, 35,000 persons fewer than in April 2009. The decline in the employed persons and increase in size of the population contributed to an increase in the economic dependency ratio (i.e. the total number of persons who are not working relative to the employed labour force) from 1.4 persons per employed person in April 2009 to approximately 1.5 persons per employed person in April 2010.
- **decline in real GDP:** Real economic activities are projected to have declined by 0.9% during the first half of the year relative to the corresponding period in 2009. Overall for 2010, real GDP is projected to remain flat.
- **Higher Taxes:** Tax policy, announced in December 2009 and implemented in January 2010, will contribute to a decline in purchasing power.
- **Lower Interest income :** The JDX, which led to a decline in interest rate and longer maturity of government bond instruments, will lead to lower than anticipated interest income, thereby reducing purchasing power.
- **Uncertainty:** Uncertainty about the size of future job cuts in both the private and public sectors has led to persons being risk adverse, leading to excess savings (i.e. savings beyond planned investment due to falling consumption and delayed purchasing) which contributed to reduced economic activities.

4.10.2. However, the extent of the increase in poverty was cushioned by:

- **Welfare expenditure:** increase in resources allocated to welfare expenditure in the FY2010/11 budget
- **Remittance Inflows:** increase in remittance inflows by 8.7% to US\$928.2 million in January – June 2010 relative to the corresponding period in 2009.

5.0 Fiscal Considerations

5.1 The implementation of the Fiscal Consolidation Programme requires a cut in public sector wages and salaries from 11.75% to 9.5% of GDP over a four- year period. This would lead to i) a further reduction in purchasing power; ii) reduction in demand for goods and service, thus leading to a further contraction in output; and iii) a decline in the short-term economic outlook. In the current economic climate, these negative effects may lead to a slowing of the recovery or a double dip recession.

5.2 Subsequent to the two IMF Reviews, the IMF has highlighted that there are possible threats to the programme including the May 2010 incident, which although stabilized and having no impact on the financial sector, could affect economic prospects through tourism and negative investor sentiment.

6.0 Conclusion

6.1 Given recent socio-economic developments and trends outlined above, the following implications are foreseen:

- further contractions in output, stalling the projected recovery process in 2010 and 2011
- halting the positive recovery trends in employment levels
- further declines in consumer and business confidence.

6.2.1 Therefore, the PIOJ recommends the following:

1. Implementation of specific growth-inducement projects to generate employment and spur demand, thereby building consumer and business confidence.
2. Use of on-going projects for which loan/grant funding has already been procured and budgetary provision has already been made or will be made, to generate liquidity in targeted communities.
 - The Chinese funded infrastructure rehabilitation programme could be one such initiative to provide jobs, linked with training for community residents. Other programmes planned by the National Works Agency and National Water Commission could also be identified to link the objective of infrastructural improvement with that of job provision.

- The Community Renewal Programme requires an expansion of budgetary expenditure for community clean-up, sanitation provision and upgrading, construction of multi-purpose facilities, among other things. Funding is available under on-going projects such as the CSJP and projects funded by the Caribbean Development Bank if fiscal space is provided. Discussions should be held with the Ministry of Finance to determine the amount of additional space that could be accorded violence prevention and community development projects. The Ministry of National Security and JSIF would both play an important implementing role and would therefore require an expansion in their human resource capacity. In this regard, capacity within the Urban Development Corporation could also be harnessed.
 - On-going projects which are aimed at fostering enterprise development should also be prioritized, e.g. the World Bank funded Rural Enterprise Development Initiative (REDI) which is implemented by JSIF.
 - A new employment generation programme should be considered at the Community level financed by a mix of Constituency Development Fund resources and budgetary resources, to support small community based projects. These projects should be selected based on agreed criteria such as contribution to disaster risk reduction and environmental enhancement.
3. Credit Bureau - Establishment of a credit bureau will facilitate and fast track access to capital as well as strengthen the credit administration capacity of financial institutions.
 4. Expansion of ICT footprints in Jamaica deserves serious consideration. With a short start-up time, it could lead to a significant and regionally diverse job creation.
 5. Fast tracking of implementation of the Collateralization/Secured Transaction Legislation. This will translate into reduced interest rates, lower transaction costs and increased access to finance for the 35 per cent of businesses currently marginalised by the existing financial system.
 6. Modification of the current IMF Stand-by Agreement, so as to facilitate a longer period of transition to achieve budget balance, will give the country the fiscal space to implement most of the above projects, and thereby facilitate economic growth which is a crucial requirement for sustainability of the Fiscal Consolidation Programme.

Part III

Analytical Framework

Chapter 7

Resolving the Supposed “Puzzle” of Low Growth Rate and High Investment Rate in the Jamaican Economy

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1.0 The Problem and a Proposed Solution

A number of authors have pointed to a supposed “paradox”, “anomaly” or “puzzle” concerning the persistence of a low growth rate of GDP in the Jamaican economy accompanied by an apparently high rate of capital investment. In the absence of an acceptable resolution of this problem, it remains an open question as to what set of economic policies might be considered appropriate and necessary to deal with the economic situation prevailing in the country today.

This paper seeks to provide an explanatory framework that helps to resolve this seeming puzzle. The broad aim is to place the discussion of this problem on a more rigorous analytical level and, at the same time, to sharpen the focus on the policy issues involved.

Accordingly, the paper presents an analysis that identifies a specific set of conditions which may account for the coexistence of slow growth and high investment as a necessary outcome of those conditions. Simply stated, the answer to the puzzle proposed here is that the *effective rate* of investment is lower than it might appear to be from observing the *measured rate* of investment, and lower than it could conceivably be under ideal conditions. It is argued that this result is not only, if at all, the possible consequence of measurement errors but also, and more importantly, the consequence of specific, identifiable, and quantifiable conditions prevailing in the economy. In particular, these conditions are: (a) the chronic state of fiscal imbalance, (b) underutilization of productive capacity, (c) economic waste of capital, and (d) concentration of capital investment in highly capital-intensive sectors and economic enclaves.

On this basis, the analysis provides some key indicators for focusing policy geared to improving growth performance of the Jamaican economy.

2.0 Capital Investment as the Driver of Economic Growth

In approaching this issue, it is necessary to start from a base of conceptual clarity grounded in a relevant theory of the growth process. In this connection, it must be noted that the basic and implicit assumption which motivates the notion of a puzzle in the record of Jamaica’s economic-growth performance is the idea that there exists a positive

functional relationship between the growth rate of output and the rate of investment. Accordingly, we may write this function as

$$(1) \quad g_y = f(s), \quad f' > 0$$

where g_y = growth rate of output (Y), and s = investment share of output (I/Y). Thus, a high investment rate is necessarily associated with a high growth rate of output.

This assumption, now made explicit, can then be seen to be compatible with any theory that yields such a function as an essential element of its internal logic.

It follows that we must therefore rule out any relevance of the well known and widely applied neoclassical growth model. That model, in its canonical form, asserts that the growth rate of output, in long-run equilibrium, is uniquely related and equal to the growth rate of the labour force. In the extended model with “technical progress”, the equilibrium growth-rate equals growth rate of the labour force plus the (exogenous) rate of technical progress. The growth-rate of output is thus conceived to be strictly independent of the rate of investment in this model.

In contrast, it is possible to find such a functional relation as equation (1) in post-Keynesian models developed from early contributions of Harrod and Domar.³⁴ That function may be expressed as

$$(2) \quad g_y = sv + z$$

where v is the output/capital ratio (Y/K), and z is the growth-rate of labour productivity.

Adopting this specification allows us to gain an immediate initial insight into the problem at issue. In particular, as one possible explanation of the puzzle, it could be argued that perhaps the growth rate of labour productivity is negative ($z < 0$) and large enough to significantly offset the positive contribution of investment ($sv > 0$) and reduce the corresponding growth rate of output.

Some studies have reported a negative growth rate of labour productivity for the Jamaican economy. However, it is implausible to suppose that, in the presence of significant accumulation of capital (high investment rate), labour-productivity growth could be negative and large enough to make such a big difference in terms of overall output growth. This is because capital accumulation is itself typically associated with positive labour-productivity growth, for familiar reasons, well established in empirical studies, related to product and process innovation, organizational improvements in production and supply-chain management, learning effects among workers and managers,

³⁴ Such a relation is also implied but not formally stated in the acclaimed development theory of Arthur Lewis.

investment in education, and the like.³⁵ This association entails that, in equation (2), the variable z is itself functionally dependent on the rate of investment, thus making the rate of investment the “high powered variable” that determines the growth rate of output. That, in turn, would suggest that the report of negative productivity growth is itself problematic and, hence, is very much a part of the same supposed “puzzle”, not an explanation of it.

Alternatively, as another explanation of the puzzle, it could be argued that the Jamaican economy has such an abundance of capital as to be undergoing severely diminishing returns to capital (implying significant decline in v). This, on its face, would be readily recognized as a thoroughly unfounded and highly improbable idea.

So, something else must be at work here. In what follows, I focus attention on capital investment itself, regarded as the “high-powered variable” determining the growth of output. I propose that there are specific, operative factors, operating in and through the investment process, which depress the levels of saving, investment, and output below what they would otherwise be. These factors account for the persistence of slow growth even though the investment rate, however measured, may appear to be high.

3.0 The Rate of Capital Accumulation: Definition and Measurement

To proceed, it is useful to employ the standard accounting framework that identifies components of national output (Y) in terms of both income and expenditure in an open economy with a tax-and-spend public sector. Thus:

$$\begin{array}{ll}
 (3) & Y = C + G + I + X - M & \} \text{ C = private consumption} \\
 & & \} \text{ G = public expenditure} \\
 & & \} \text{ I = investment} \\
 (4) & Y = C + S + T & \} \text{ X = exports} \\
 & & \} \text{ M = imports} \\
 & & \} \text{ S = saving} \\
 & & \} \text{ T = tax revenue}
 \end{array}$$

³⁵ This is to say that labor productivity is dependent, not just on “learning by doing”, i.e. on experience (as proposed in the theory of Kenneth Arrow, much earlier by Adam Smith, and supported by numerous empirical studies), but on active engagement with the specific instruments, training, formal education, workplace organization, and institutional setting of the labor process, which capital investment by private firms and government provides. It is this interactive effect between capital investment and labor productivity that is being emphasized here, an effect which is suppressed in the commonly used Solow-growth-accounting scheme based on the simplistic concept of an aggregate production function with independent and separable inputs of capital and labor and exogenously determined “technical progress”. Neoclassical models of “endogenous growth” adopt specifications based on this association between capital accumulation and labor productivity growth. However, they also typically assume other conditions, such as full employment of labor, full utilization of capital, and efficient markets, that are essentially incompatible with the analytical framework employed in this paper, besides being highly questionable in terms of empirical relevance to the Jamaican economy.

It follows that:

$$(5) \quad s = I/Y = [S - (G - T) - (X - M)] / Y$$

Thus, investment is determined as the sum of three basic components: national private saving, S , public sector budget deficit/surplus, $(G - T)$, and foreign capital inflow/outflow (equivalent to the trade deficit/surplus), $(X - M)$.

The rate of capital accumulation is then defined as:

$$(6) \quad r_a = I/K = \{[S - (G - T) - (X - M)] / Y\} \cdot (Y/K) = sv$$

Let r_a be the *measured rate of accumulation*, corresponding to the actual, empirically measured value of all the variables considered as aggregates for the whole economy (data provided, say, by STATIN). I return later to the question of possible measurement errors in the data. Meanwhile, it is readily apparent from this formula that there is lots of room for such errors to occur.

Now, introduce two additional variables, defined as follows:

Y^* = Total output produced by full utilization of resource inputs (labor, capital, and land)

K^* = Total capital evaluated at “efficiency prices” (equal to “real cost” of production plus profit at the normal rate) and taking account of depreciation at the normal rate.

Extending equation (6) by inclusion of these variables and factoring yields a new expression:

$$(7) \quad r_e = s \cdot v^* \cdot u \cdot k$$

where

$v^* = (Y^*/K^*) =$ output/capital coefficient at full utilization of productive capacity;

$u = (Y/Y^*) =$ rate of utilization of productive capacity, $0 \leq u \leq 1$;

$k = (K^*/K) =$ rate of efficiency in use of capital, $0 < k \leq 1$.

Call r_e the *effective rate of accumulation*. Here, the variables v^* , u , and k are to be interpreted as “modifiers” which, depending on their actual value, drive a wedge between r_a and r_e .

Finally, define the *ideal rate of accumulation*, represented by the following equalities:

$$(8) \quad r^* = s^* \cdot v^* \cdot u^* \cdot k^*$$

where

$$\begin{aligned} s &= s^* \rightarrow G - T = 0 && \text{(fiscal balance prevails);} \\ u^* &= (Y/Y^*) = 1 && \text{(full employment of productive inputs prevails);} \\ k^* &= (K^*/K) = 1 && \text{("economic waste" of capital is eliminated).} \end{aligned}$$

Using this set of relations, I can now state rigorously the following proposition:

$$(9) \quad r_e < r_a < r^*$$

Evidently, this proposition holds under the following specific inequality conditions:

$$G - T > 0; u < 1; k < 1.$$

This is the basic proposition derived from this analysis. It points the way to a solution of the growth puzzle and, in addition, provides a useful guide to deal with the question of a growth policy for Jamaica.

4.0 Resolving the Puzzle

The preceding analysis points clearly to a set of conditions which could explain the apparent coexistence of slow growth and high investment in the Jamaican economy and thereby resolve the supposed puzzle.

The proposed resolution is as follows. For explanatory purposes, the key determining factor in the growth of output is the *effective rate of accumulation*, r_e . As shown in the previous section, this number is less than the *measured rate of accumulation*, r_a , and lower still than the *ideal rate of accumulation*, r^* . What accounts for this difference is precisely the set of conditions identified here that are assumed to be operating in the economy. It follows that, by correctly identifying and specifying the relevant variables that define the effective rate of accumulation, as in equation (7), this should yield a corresponding growth rate of output that is consistent with prior presumptions about the functional relation between capital investment and growth.

In the language of econometrics, what is being said here is that the "puzzle" originates from an *identification problem* in the (implicit or explicit) estimated growth equation. It is therefore resolved by correct specification of that equation. This problem is separate and distinct from any problem of "measurement errors" in the data used for estimation. It would also occur even in the absence of such errors.

However, the existence of measurement errors cannot be ruled out as an additional factor accounting for the supposed puzzle. Matching of the relevant ratios and other magnitudes defined here with empirical data would pose serious challenges for research in any context, and no less so in the context of the Jamaican economy. This leaves plenty of room for such errors to occur.

It is not my purpose here to try to take on these empirical challenges. For now, I leave it to others to pursue the task of doing a proper econometric estimation of the appropriate growth equation for Jamaica. Instead, I wish to focus on the policy implications of this analysis.

5.0 Useful Indicators for Economic Policy in Jamaica

Moving on, consider now the meaning and relevance of each of the conditions identified here in the specific context of the Jamaican economy. I propose that these conditions provide useful indicators for prioritizing and focusing a policy to promote economic growth in this context.

(a) $G - T > 0$

This condition is perhaps the most straightforward, widely recognized and discussed, with the most readily available data. It represents the chronic state of fiscal imbalance, consisting of a deficit in the financing of general government expenditure, that has been a persistent feature of the Jamaican economy over many years, notably in the period since 1996/97 (see data in Figure 7.1). Averaging 5% of GDP during that period, it has exercised a substantial influence on the investment process.³⁶

Viewed from the standpoint of national saving, the public sector deficit constitutes a leakage from the available pool of saving. Since a large part of the deficit (50-60 percent on average) is financed by foreign borrowing, it has been a major conduit for foreign capital inflow while drawing from scarce foreign exchange earnings to service a growing foreign debt. It has served also to draw private domestic saving into financing riskless government paper and away from investment in production. Total debt service has come to dominate government expenditure, reducing sharply the room for financing public investment (see Figure 7.2). Private investment has also been negatively impacted, by being crowded out of the capital market and paying a higher cost of capital, and by deterioration in public services (infrastructure, education, security, health, etc.) that provide positive externalities to support private investment.

³⁶ Further analysis of the public-debt strategy pursued in the past in Jamaica is presented in my papers: "Jamaica's debt-propelled economy: a failed economic strategy and its aftermath," SALISES Working Paper Series No. 1, UWI, 2010; "Dynamics of the debt-propelled economy: the D-factors in Jamaica's poor economic performance," 2009.

(b) $\underline{u = Y/Y^* < 1}$

This condition represents underutilization of productive capacity. Viewed narrowly, it refers to underutilization of available capital consisting of physical plant, equipment and materials, hence is reflected in a lower output-capital ratio. Viewed more broadly, it would encompass underutilization of other productive inputs: labor and available arable land and land-based resources such as minerals, rivers, etc.

All such underutilized resources represent idle capacity which, if brought into efficient production, could increase national output. Idle capacity thus constitutes a drag on output and the growth rate of output, both directly in terms of ongoing levels of production with existing resources and indirectly by reducing the incentive of firms to invest in additional productive capacity. Casual observation suggests that this is a prominent feature of the Jamaican economy, appearing for instance in the form of idle physical plant and land in the bauxite and sugar industries, idle land generally in agriculture, single-shift operation, stoppages and reduced hours of work in manufacturing and service industries, abandoned buildings and property in urban areas.

The key problem underlying this condition, I would argue, is a matter of supply-side constraints arising from deficiencies and distortions in the existing structure of economic incentives (risks, rewards, costs, externalities) that drive entrepreneurial decision-making. It is not simply a matter of deficiency of aggregate demand, as would appear from applying a simplistic demand-oriented theory.³⁷

(c) $\underline{k = K^*/K < 1}$

This is a measure of what might be properly called economic waste of capital. K^* is the “true” value of invested capital, using the most efficient technique of production, evaluated at its reproduction cost, and allowing for normal depreciation. K is the actual value of invested capital, evaluated in terms of its actual cost of construction and current operation (maintenance and repair). I maintain that, typically in Jamaica, the difference between the two quantities is such that $K^* < K$.

A variety of factors account for this difference: excessive construction costs (“cost overruns”) due to poor quality of construction work, costs of providing security on site, kickbacks of various sorts from contractors to off-site agents, excessive post-construction costs of repair and maintenance due to abnormal “wear and tear” (whether from neglect or actual use), and cost of security (“protection”) for current operation.

³⁷ See “Assessment of the constraints to economic growth in Jamaica,” in Chapter 8 of this report. The more general problem of the overall “system” of incentives that prevails in the Jamaican economy is discussed in my paper: “The Jamaican economy in the twenty-first century: challenges to development and requirements of a response,” in Planning Institute of Jamaica, *Jamaica, Preparing for the Twenty-First Century*, Ian Randle Publishers, Kingston, 1994, pp. 13-52.

(d) $v^* = Y^*/K^*$

This is a measure of the overall output/capital ratio for the economy as a whole, evaluated at full utilization with “efficiency” prices. In some simple models, it is represented as a technological relation or production coefficient. But more generally, and in the current context, it is strictly conceived as the weighted average of the output-capital ratios prevailing in the different sectors of the economy, each with its own distinct conditions of production and use of capital. As such, it is a summation of the sectoral structure of the economy.

In practice, the output/capital ratio tends to vary widely between sectors. The weights depend on the size of the different sectors in terms of output and/or invested capital and, hence, this average (as well as other measures of overall economic performance) is heavily weighted towards prevailing conditions in the larger sectors. If, as is often the case, the larger sectors have lower output/capital ratios, this pulls down the average ratio and correspondingly lowers the overall growth rate for any given investment rate. Furthermore, if and when the larger sectors in terms of capital are growing, their investments would count for more in the aggregate, thus pushing up the overall investment rate for the whole economy while, at the same time, pulling down the overall growth rate because of their lower output-capital ratio. For these reasons, one could well find consistency between a high rate of investment and a low growth rate of output.

In Jamaica, the Bauxite & Aluminium and Transport & Communications sectors are at one extreme end of the sectoral distribution of output/capital ratios, with their large size of invested capital and correspondingly low output/capital ratios relative to the rest of the economy. Since the early 1990s, growth of the overall economy has been strongly influenced by the pattern of investment in these two sectors and this is likely to have been a contributing factor to biasing downwards the overall growth rate and biasing upwards the overall investment rate.

While the output/capital ratio is a useful tool for representing aspects of the structure of the economy, it is of limited value as a mere aggregate. For a deeper analysis and understanding of the economic structure it would be necessary to deploy other and more capable tools, such as input-output analysis, which better quantify the prevailing inter-sectoral linkages and enable concrete identification of “clusters” of economic activity for designing targeted growth policy. For instance, it has long been recognized that there are significant opportunities in Jamaica for building such linkages among the cluster of economic activities in tourism, agriculture, entertainment, sports and local services, which would create a basis for efficient import substitution as well as export growth and diversification. Failure to fully realize that potential, due to concentration of investment in economic enclaves, has been a significant factor retarding growth of the economy.

6.0 A Growth-Strategy of “Closing the Gap”

Consider, finally, the question of a growth strategy appropriate to the above-described conditions.

In the context of these conditions, and taking account of the analysis presented here, it would be natural and meaningful to conceive of the overall policy objective as closing the gap between the effective rate of accumulation, r_e , and the ideal rate of accumulation, r^* (as defined above in equations (7) and (8)). The size of the gap between r_e and r^* is a measure of the distance to be covered in implementing the policy. Progress towards achieving the policy objective is measured by success in dealing with the individual conditions represented by the proposed indicators.

As to the matter of prioritization within the strategy, one essential component that immediately pops up from this analysis is fiscal consolidation aimed to deal with the prevailing chronic state of fiscal imbalance. This is evidently consistent with aspects of the current focus of economic policy in Jamaica.

However, as a direct fallout from the analysis presented here, it must be emphasized that, while this component is a necessary ingredient of a growth strategy, it is obviously not sufficient. It would also be necessary to include other components that address specifically the other conditions identified here, represented by (b) underutilization of productive capacity, (c) economic waste of capital, and (d) the unbalanced sectoral structure of the economy.

7.0 On Formulating a Growth Strategy for Jamaica

The actual situation that prevails in the Jamaican economy today is one of, let us be frank, an inherited condition of nearly 40 years of relative economic stagnation (as measured by official statistics of growth of aggregate output and employment and other qualitative indices) in the context of a dynamic world where rapid changes on a global scale, in production, technology, and economic organization, have left the country far behind even those countries which it led or equalled half a century ago.

The analysis presented here indicates that this historical underperformance of the economy can be explained as the direct consequence of specific, identifiable, and quantifiable conditions operating in the economy and through the process of capital investment. In particular, these conditions are: (a) the chronic state of fiscal imbalance, (b) underutilization of productive capacity, (c) economic waste of capital, and (d) concentration of capital investment in highly capital-intensive sectors and economic enclaves.

It is presumed that these conditions, in turn, are associated with a number of dysfunctional pathologies and systemic constraints, operating as both cause and effect in a complex mutual interaction with the investment process. These factors are enumerated

in Chapter 8. The mutual interaction of these factors with the investment process constitutes a self-reinforcing dynamic that produces an ongoing state of inertia manifested in the underperformance of the economy.

This effect is compounded over time because the history of continued economic underperformance leaves behind a legacy of perception by stakeholders in the economy of limited opportunities for change and advancement and a system of incentives and disincentives, considered by many to be biased and unfair, that is conducive to allocative inefficiency, speculative risk-taking, Ponzi schemes, and illicit enterprise. This legacy acts as a kind of deadweight, imposing itself on economic activity in the country, along with whatever adverse exigencies (such as the current global recession and recurrent natural disasters) may exist at any particular moment. I call this legacy *the deadweight of history*. In this sense, history matters, and it matters in specific and decisive ways.

The existence of idle resources in this particular context is the reflection of long-standing failure of the Jamaican economic engine to adapt to changing conditions. The diverse resources referred to here (land, labor, capital) are only latently available and potentially productive. There is no presumption that they can be immediately and costlessly deployed from their existing state of disuse and disrepair into efficient production under modern conditions of international competition. Neither can reliance on the typical menu of subsidies, waivers, and demand stimulus be sufficient to magically produce the required transformative effect. They must be brought into efficient production by an active and creative process of mobilization driven by an entrepreneurial profit-seeking private sector in partnership with a state that proactively provides the enabling environment and political leadership.

The policy problem that this presents can only be simplistically and naively construed as one of re-allocation of pre-existing and fixed resources or, worse, one of moving the economy from unemployment to a supposedly pre-existing position of full employment of those same resources. Rather, the problem must be construed as one of moving the economy from its initial state of chronic stagnation and inertia, through a time-phased process of transition, to a state of sustained growth.

At its core, it is a problem of transformation and modernization of the economy that must be engaged systematically and strategically, with a sharp focus on addressing the prevailing initial conditions (obstacles, constraints, opportunities) and putting in place the requirements for making the transition. Or, by useful analogy, it is a problem of cranking up an economic engine that is old, rusty, creaky and slow, and needs to be refitted and recharged with modernized moving parts to cope with the requirements of a new race running against better equipped, high-performance, modern engines.

The state has a significant and necessary role to play in this process, specifically with respect to (a) meeting its core responsibility for efficiently providing collective services (including the social safety net), (b) remedying market failures associated with the spillovers and externalities inherent in production and technological change, (c) remedying problems of coordination, risk, and uncertainty intrinsic to investment

activity, and (d) capturing dynamic allocative efficiencies in education and training of the labor force and in research and development. In general, this inference about the role of the state is supported both by economic theory and by empirical evidence from the history of the advanced economies, from the more recent history of the emerging economies, and from our own history.

However, in Jamaica's case, it is also evident that the state itself, through its own actions, has contributed in many ways to the continued underperformance of the economy, in particular by creating market distortions, allocative inefficiencies, avenues for rent-seeking, and corruption. Accompanied as they are by a lack of transparency guarantees and of clearly articulated and sanctioned boundaries of the state, such actions and their outcomes tend to become an endemic and dysfunctional feature of governance. Nowhere is such failure of governance more evident than in the lack of fiscal discipline which accounts for the large accumulation of public debt that now severely restricts the options for promoting growth and development in the economy. In order to improve the outcomes of state intervention in the Jamaican economy, it is therefore deemed necessary to institute a systematic program of reform of the public sector.

The private sector also has its own well-defined role in this process. Within the space of entrepreneurial decision-making, managerial control and property rights occupied by individual firms, the private sector exercises command over the production and investment process. In this respect, it is properly conceived as the main driver of the process of economic growth and development. However, in Jamaica, the private sector's historical performance in that space over the long haul has been found wanting (as exemplified in the findings of empirical research and international surveys elsewhere reported³⁸). Overall, there has been a highly uneven level of achievement among different firms and across different sectors (e.g. manufacturing compared with tourism). Among smaller firms (MSMEs), there are special obstacles and handicaps (internal and external to those firms), uniquely related to their scale and sectors of operation, that have limited their contribution to the growth process.

As regards the relation between the public and private sectors in Jamaica, the character of this relation is judged by some to have been an uneasy one in the past. It is also marked by a form of symbiosis (defined as "clientelism" by scholars who have closely studied the Jamaican experience³⁹) which may have served to stymie development of a more dynamic and entrepreneurial private sector and, hence, to inhibit growth of the economy. There is a clear need to reconstitute this relation on different foundations which would allow for a more efficient, collaborative and proactive partnership geared towards promoting transformation of the economy.

³⁸ See, for instance, M. A. Ayub, *Made in Jamaica, the Development of the Manufacturing Sector*, World Bank Staff Occasional Papers, Number 31, Baltimore, Md.: Johns Hopkins University Press, 1981, and the surveys discussed in Chapter 8.

³⁹ See Carl Stone, *Democracy and Clientelism in Jamaica*, New Brunswick, USA: Transaction Books, 1980, and Carlene Edie, *Democracy by Default, Dependency and Clientelism in Jamaica*, Boulder: Lynn Rienner, 1991.

Transforming the complex set of structural and behavioural conditions described here constitutes the fundamental challenge that Jamaica faces at this time. This is the challenge that must be overcome in order to set the country firmly and effectively on a dynamic path to sustainable growth with social equity. The totality and complexity of the conditions involved, as laid out here, dictate the need for a coordinated, integrated and holistic approach to designing and implementing economic policy. There is no quick fix or one-shot solution. This challenge therefore summons up a needed effort to rethink the nature of policies and programs pursued in the past and to develop new policies and governance procedures designed to achieve better outcomes.

Figure 7.1

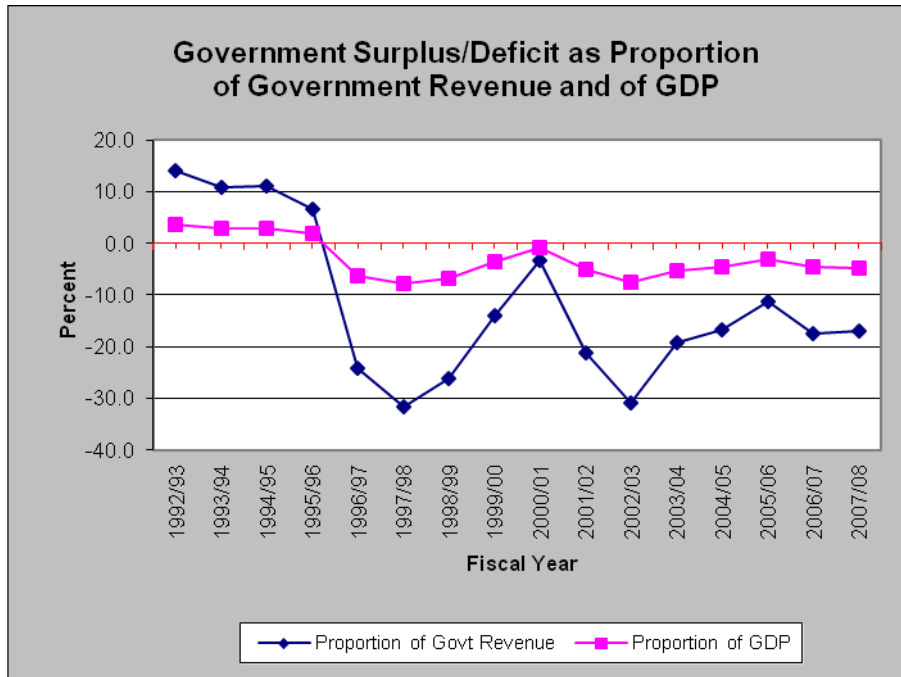
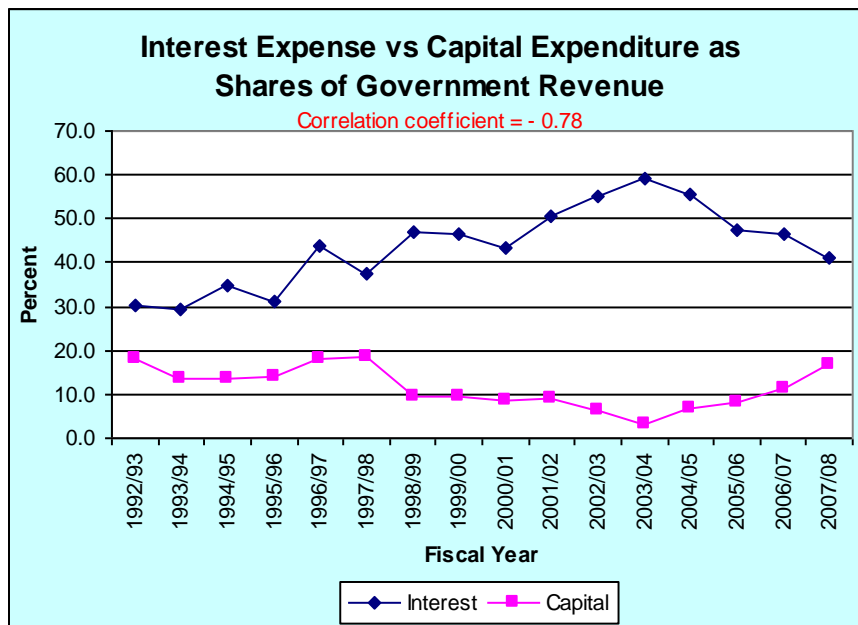


Figure 7.2



Appendix 7A

A Methodological Note

The starting point for analysis of economic policy, in the context of the economic conditions and issues discussed in this paper, is a conception of the economy as a dynamic system wherein growth and change are the result of human motivation and creativity and the process is driven by the profit-motivated production and investment activity of firms large and small in partnership with a proactive state. A proper economic analysis of this situation calls into play all the tools of modern dynamic economic analysis which deal with economic incentives, risk and uncertainty, finance, capital investment, technological innovation, education and training of the labour force, institutional adaptation to change, and the like. Using the tools of static economic analysis found in elementary economics textbooks is bound to lead to confusion and error in both analysis and prescription.

Specifically, application of the old-fashioned notion of a Production Possibility Frontier (PPF) to the issues discussed here involves a fundamental error of economic analysis and is wholly devoid of meaning and relevance from the standpoint of formulating an economic-growth strategy for Jamaica today. The analytical error involved in such an approach would be readily recognized by the student of modern economics as arising from a basic confusion between economic statics and economic dynamics.

For clarification, note that the PPF (see Figure 1) is constructed to deal with an imaginary world (of economic statics) in which resources are fixed, there is no possibility of change, and so the only room for action (in an economy assumed to be operating on the frontier) is to choose between different allocations (A or B) of the fixed resources to producing, say, guns (X1) and butter (X2) – the example that every student is taught in the first economics course. This construction says nothing about the distributional consequences of the choice, or by what conceivable mechanism, if any, the change in allocation could be effected, which in the real world of policy and action would be matters of immediate and serious concern.

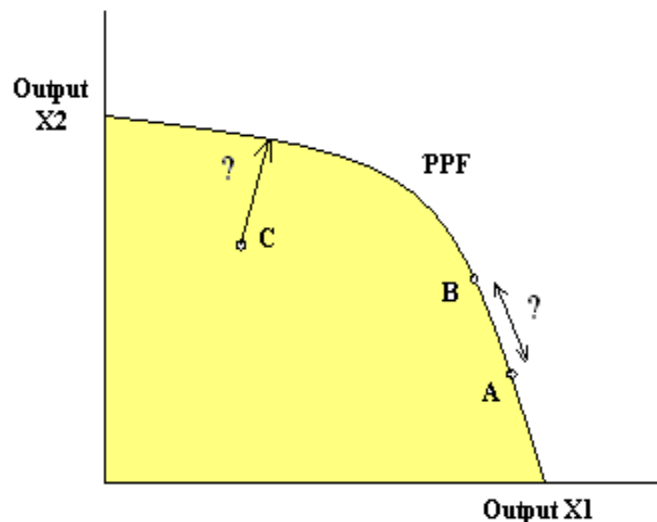


Figure 1. Production Possibility Frontier

Putting these matters aside, and with a sleight of hand, this construction can then be adapted to talk about another imaginary world in which, for some unexplained reason, the fixed resources are assumed to be unemployed (the imagined economy is supposed to be operating “inside the frontier” at C). It can then be posited that there now exists a new problem of getting the economy to full employment of its existing and fixed resources – a problem that, it should be noted, is conjoined with (not separate from) the previous problem of choice of resource allocation. No explanation is provided of why the resources remain unemployed or by what mechanism the economy is supposed to be transported from a condition of unemployment to full employment of those resources. Here again, as before, the construction is notable more for what it leaves out and fails to explain (hence its lack of any real content either of analysis or prescription) than for any practical guide that it provides to understanding any actual situation or to developing economic policy to deal with actual conditions.

Chapter 8

Assessment of the Constraints to Economic Growth in Jamaica

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1.0 Focus of this Assessment

The issue of growth constraints in Jamaica is a long-standing subject of analysis and public discussion. It has crucial relevance both in the context of a well-known history of slow growth since the 1970s and in the immediate context of an economy undergoing a deep recession. Many reports have been written, old and new, and the list of constraints emerging from these reports is long, which begs the question of where to start in dealing with them on a practical level. There are important questions of cause and effect that have not been adequately addressed in the existing analyses. Actual policy responses have been mostly lacking in comprehensiveness and continuity, and implementation of policy has been a recurring problem. However, there are also significant achievements that need to be properly documented and studied for the lessons they offer for the conduct of effective policy.

The assessment presented here has a more limited focus and practical goal. It seeks to draw on available published reports to identify and rank prevailing constraints that are commonly recognized and, on this basis, to construct a practical menu of targeted areas for needed action in a medium-term policy framework.⁴⁰

As a small open economy, the capacity of Jamaica-based firms to penetrate and compete in export markets, as well as against imports in the local market, is the key to economic survival and growth. It is therefore necessary to focus sharply on those constraints, and their specific underlying features, that limit Jamaica's competitive standing in relation to the rest of the world economy. There exists a number of readily available recent reports, based on survey data, that can be used for this purpose. They form the main sources for this assessment.

The assessment is organized around an analytically useful distinction between supply-side and demand-side constraints. This approach has the distinct advantage that it leads to:

(1) a clear understanding of the need and scope for a differentiated mix of strategic interventions consisting of the following key elements:

⁴⁰ Based on data available at time of writing, October 23, 2010.

- aggregate-demand stimulus
- fiscal incentives
- removal of structural impediments

(2) recognition of the different but shared responsibilities for action by government and the private sector.

2.0 Measures of Jamaica’s Competitive Standing in the World Economy

To assess Jamaica’s overall competitive standing in the world economy, it is useful to consider three sets of international indicators (all constructed by international agencies) that figure prominently in current world-wide policy discussions:

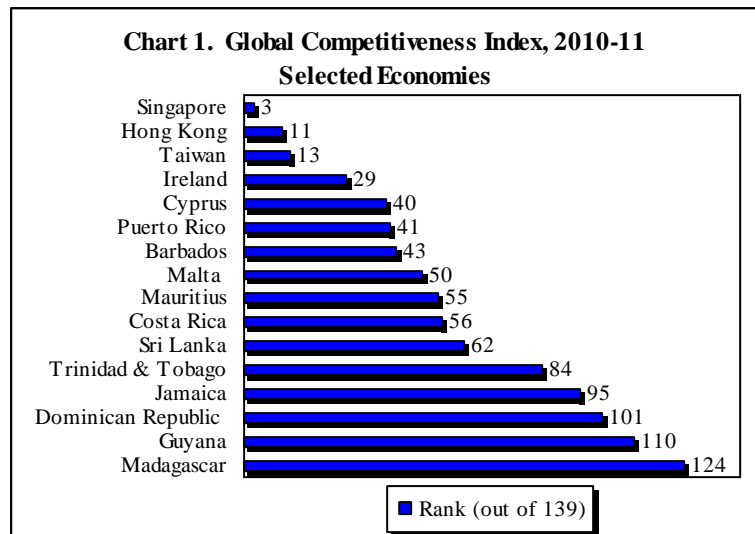
- (1) Global Competitiveness Index (GCI)
- (2) Doing Business Index (DBI)
- (3) Corruption Perception Index (CPI).

They differ in their underlying components, but have overlapping features that allow for a test of consistency across indices. Based on surveys conducted annually over many years, they also enable tracking over time of an economy’s relative standing.

Jamaica’s position on these indicators is examined here in comparison with a number of economies specially selected from the complete list covered by each index. The selected economies are mostly island-type economies (Caribbean neighbours included as far as possible), with relatively small populations, many of them with a similar historical background and recent past of economic underdevelopment, and with a sufficiently differentiated position in the rankings (and in economic performance measured in terms of per capita income-levels and recent growth) to establish a clear pattern of leadership among them.

The GCI provides a direct, composite measure of international competitiveness, defined across a broad range of components that are thought to represent critical elements of an economy’s capacity to maintain and support entrepreneurship, investment, and production of goods and services which can successfully compete in the world market against products of other economies.

Chart 1 shows Jamaica’s standing on this measure.



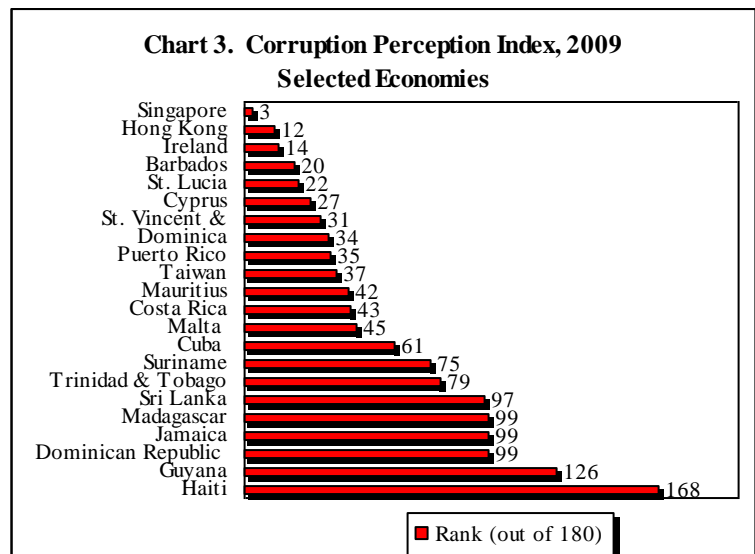
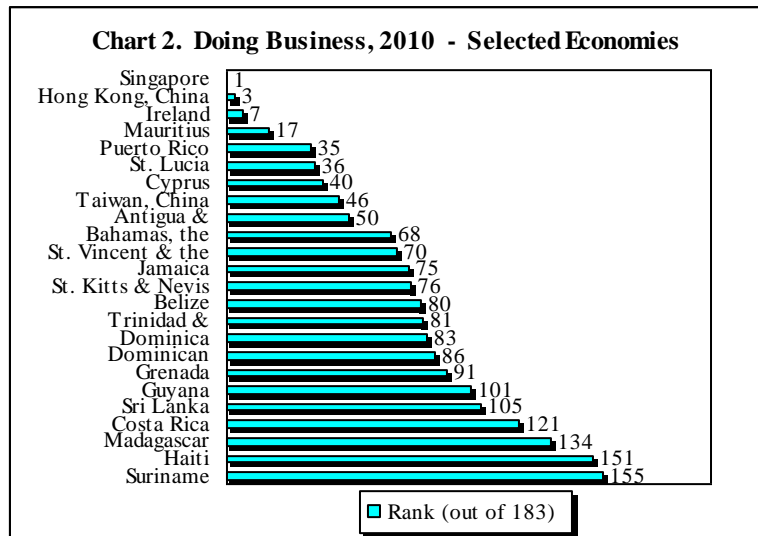
The DBI focuses more narrowly on quantitative indicators of the system of regulations affecting the conduct of business activity in different stages of such activity, all the way from starting a business to closing a business, and including specific indicators for the following: dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, and enforcing business contracts.

Chart 2 shows Jamaica’s standing on this index.

The CPI is even more narrowly focused, but no less relevant. Constructed by Transparency International, it ranks countries “by their perceived levels of corruption, as determined by expert assessments and opinion surveys”. It is touted by TI as one of its “reliable quantitative diagnostic tools regarding levels of transparency and corruption at the global and local levels.”

Chart 3 shows Jamaica’s position in this ranking.

From these three indices, it appears that Jamaica ranks relatively far behind the leaders, both in the sub-group of selected economies and in the full group of economies. Within the full group, it falls well below the median, by 25 slots on the GCI, and by 10 slots on the CPI. It does relatively better on the DBI (17 slots above the median); but still remains far behind at the 75th position. Within the sub-group it ranks ahead of only three economies at the bottom of the list, on both GCI and CPI; it does better on DBI by holding a position exactly in the middle of the sub-group.



From further examination of the time trend in rankings on these indices as well as in their underlying indicators, it also appears that Jamaica has been losing ground during the years covered by the data (see Tables 8.2, 8.4, 8.6). Therefore, the rankings observed in the most recent data represent a continuing decline in Jamaica’s relative position.

These findings could be considered to raise an alert and cause concern regarding the current status of the Jamaican economy in the international arena. They have served to raise alarm in some quarters. Certainly, they must be taken to indicate that Jamaica still has a far way to go and a difficult road ahead, if the national goal is “to reach developed country status by the year 2030”, as declared in the *Vision 2030 Jamaica, National Development Plan*.

Nevertheless, there is a need to exercise caution in the interpretation of these rankings, for at least two reasons.

First, there remains a certain ambiguity as to the relation between cause and effect, which leaves a degree of openness in regards to policy choices.

For instance, consider the fact that, within this sub-group of economies, the position on all three indices is highly correlated with per capita income, as shown in Chart 4.⁴¹ This result indicates that, at least for this sample of economies, higher per capita income is strongly associated with a higher level of competitiveness, lower level of corruption, and greater ease of doing business. Despite this remarkable symmetry, it would be premature and unwarranted to infer from this result a simple one-way causation, in either direction, between the level of per capita income and any or all of these indices. The relationship is a complex one that cannot be reduced to any such simple formula.

Chart 4. Correlation of Indicators with GDP per capita, 2009 Selected Economies						
Region	Global Competitiveness Index 2009-10 (Score)		Corruption Perception Index 2009 (Score)		Ease of Doing Business 2009 (Rank)	
	r	n	r	n	r	n
Caribbean	0.715	8	0.686	10	-0.686	8
Other Regions	0.713	9	0.891	9	-0.781	8
Caribbean + Others	0.772	17	0.840	19	-0.786	16

Notes: (1) r = correlation coefficient, n = number of observations. (2) Sources: For list of economies and data on rank/score, see Tables 8.1, 8.4, 8.6; for data on growth rates, see <http://unstats.un.org/unsd/nationalaccount/data.asp>

Consider, also, the relation between the position of the selected economies on these indices and their actual growth performance. As Chart 5 shows, there exists no discernible relation between the position in a particular year and growth in that year or average growth in that and the ensuing one or two years. The correlation coefficient is generally quite low (with two odd exceptions) and all negative in sign. Thus, if one were

⁴¹ Note that, in these correlations, the variables GCI and CPI are specified as a quantitative score, and a higher score means a higher rank (higher level of competitiveness and lower level of corruption). In contrast, DBI is specified as the number of the rank and so a higher number means a lower rank.

to ask, is it possible to predict growth performance in any current year or medium term from knowing the relative position of an economy on these indices, the answer would have to be a resounding No!

Chart 5. Correlation of Indicators with Growth Rate of Per Capita Income Selected Economies										
Region	CPI score (2008)/ Growth rate 2008		CPI score (2007)/ Growth rate 2007-08		CPI score (2006)/ Growth rate 2006-08		GCI score 2007-08/growth rate 2007-08		GCI score 2006-07/ growth rate 2006-08	
	r	n	r	n	r	n	r	n	r	n
Caribbean	-0.145	14	-0.126	14	-0.186	12	-0.705	8	-0.291	7
Other regions	-0.808	7	-0.521	7	-0.230	7	-0.444	8	-0.167	8
Caribbean + Others	-0.277	21	-0.106	21	-0.055	19	-0.393	16	-0.182	15

Notes: (1) r = correlation coefficient, n = number of observations. (2) Sources: For list of economies and data on rank/score, see Tables 8.1, 8.4, 8.6; for data on growth rates, see <http://unstats.un.org/unsd/nationalaccount/data.asp>

Second, since they are highly aggregated macro-indices, these indicators paint a very broad brush and, consequently, fail to reveal the great diversity of actual underlying patterns in the economy. It is at this more detailed and concrete level that specific constraints can be identified and the practical policy issues become more transparent.

3.0 Identifying the Existing Constraints

Viewed at the level of detail offered by the underlying components of the macro-indices, it is possible to gain more insight into specific areas of strength and weakness in the Jamaican economy and to begin to identify the prevailing constraints in more specific terms.

For this purpose, the DBI offers two levels of detail: ten different indicators, with a corresponding country-ranking for each, and specific quantitative measures for the components underlying each indicator.

The GCI offers a more complex picture consisting of several different levels and types of detail: (a) twelve “pillars” of competitiveness, with a corresponding country rank and quantitative score for each, (b) a detailed list of specific components underlying each pillar, with a corresponding country rank for each, (c) a broad classification of pillars according to three major categories: basic requirements, efficiency enhancers, and innovation and sophistication factors, (d) a ranking of “the most problematic factors for doing business” as perceived by respondents in a survey, and (e) the economy’s “stage of development”, in or between three defined stages: (stage 1) factor driven, (stage 2) efficiency driven, (stage 3) innovation driven – Jamaica is found to be in transition between stages 1 and 2.

As a bonus, it is useful to include here an additional data set (see Table 8.7) which identifies “business environment constraints for firms” as determined by the World Bank’s Enterprise Surveys. It provides a ranking of 11 constraints, as perceived by in-country firms, and allows a direct comparison between exporters and non-exporters as well as cross-country and cross-region comparisons.

The rankings for broadly defined constraints provided by these sources were arranged side-by-side to aid direct comparison across the different rankings. What emerges from this comparison is a degree of consistency across all rankings such as to allow drawing from them a kind of “average of the rankings”. Chart 6 shows the top ten constraints, derived in this way, listed in descending order of significance.

While all constraints on this list would obviously require attention, there is also a clear need to focus the use of limited resources, time, and effort in dealing with them by establishing priorities. To that end, this ranking can be considered to provide an objective basis for determining priorities in the reform effort going forward.

Chart 6. Average Ranking of Main Constraints in Business Activity	
Constraints	Rank
Crime & violence	1
Corruption	2
Taxation	3
Electricity	4
Finance	5
Macroeconomic instability	6
Bureaucracy & regulation	7
Quality of labour force	8
Quality of infrastructure	9
Foreign trade regime	10

Source: Compiled by author.

4.0 Taking a Close-up, Hands-on View of the Constraints

From the wide array and large body of data assembled here, one could go on to compile a long, more detailed list of features constituting the constraints relevant to direct action on the ground. Each and every item on this list would be a matter of particular concern in some setting of ongoing activity by policy makers and administrators as well as in the day-to-day conduct of economic activity by economic agents. In this respect, the data

can be made to serve a very useful and constructive purpose. Specifically, the following practical uses are worth considering.

(1) The list of detailed items underlying the DBI indicators (see Table 8.3) directly yields quantitative measures that could be used to focus needed action for reform and a template against which to measure progress in the reform effort. By comparing the actual level of performance on these measures across different economies, it is possible to set up quantitative measures of “international best practice” for each item. Progress in the reform effort in Jamaica could then be monitored and measured by the size of the remaining gap between actual practice in Jamaica and international best practice. In this way, the reform effort can be made to have a transparent, demonstrable, and objective basis that allows for public scrutiny and critical support.

(2) Similarly, the list of detailed items underpinning the pillars of the GCI can serve to focus needed action for reform. In particular, it can be used to identify specific areas of weakness and of strength relative to some objective measure. As illustrated in Table 8.5, the actual level of Jamaica’s ranking on the overall GCI, a rank of 95 for 2010-11, is used to establish the dividing line between weakness and strength in the detailed items. All items (indicated by red font) which fall below that rank constitute areas of relative weakness, perhaps deserving of priority treatment. All items (indicated by black font) falling above that rank could be considered as areas of relative strength.

There is no presumption here that Jamaica should simply copy what others do. The actual path to achieving best practice is subject to choice and the end result may be that Jamaica is able to prove its ability to innovate in particular areas and thereby establish new standards of best practice.

5.0 Dissecting the Supply-side Constraints and Responsibilities for Action

From a practical policy standpoint, in seeking to identify constraints affecting business activity relevant to a strategy of reform, it is useful to distinguish between factors operating on the supply-side of the business and those operating on the demand-side. Among the supply-side factors, a further distinction is useful between factors in the business environment and factors related to the internal operations of business firms. These distinctions matter because different considerations arise in each case in designing the actual reform program.

A key feature of the constraints identified in Chart 6 is that they are supply-side constraints, all of which can be viewed as factors operating in the Jamaican business environment. They are factors that are, so to speak, “external” to the individual firm. As such, they may have a significant impact on all firms, in terms of the cost, risk, and uncertainty of doing business, depending on the actual cost structure, sectoral and geographical location of each firm.

Government has a unique responsibility in this case for seeking to address these constraints by adopting a range of instruments available to it through its roles in monetary management, taxation, economic regulation, delivery of public services (security, health, education, training, information dissemination) and provision of physical infrastructure.

By the totality of its actions in these various roles and by proactively targeting specific constraints for action, government can also influence the choices that firms make in critical areas such as employment of labour, investment, and geographical location. The particular, though not exclusive, role of fiscal incentives as an instrument for influencing business decisions is a relevant issue here and will be further examined, through analysis and evaluation of the existing incentive schemes, as the reform program proceeds.

Aside from government’s role, there also exists a shared responsibility on the part of business firms to focus their efforts on addressing those factors internal to their operation that are under their direct control. In this connection, the GCI indicators are especially instructive in identifying specific areas where that responsibility comes into play, as can be seen from close examination of the “pillars” of competitiveness and the detailed indicators underlying them.

The GCI ranking of the 12 pillars for Jamaica is listed in Chart 7 in descending order of their “strength” as measured by their quantitative score. Many of them distinctly relate to internal operations of firms and some of these, e.g. technological readiness, business sophistication, and innovation, fall quite low in the ranking. Note that innovation is at the very bottom of the ranking, where it is tied in score with two other factors “external” to firms, namely market size and macroeconomic environment.

Chart 7. Strength/Weakness in Pillars of Competitiveness, 2010-11		
Rank	Pillars	Score
1	Health & primary education	5.2
2	Financial market development	4.5
3	Labour market efficiency	4.2
4	Goods market efficiency	4.0
5	Infrastructure	3.9
6	Higher education and training	3.9
7	Technological readiness	3.8
8	Business sophistication	3.7
9	Institutions	3.7
10	Innovation	2.9
11	Market size	2.9
12	Macroeconomic environment	2.9

Source: *The Global Competitiveness Report 2010-2011*, World Economic Forum.

For further elaboration of the constraints directly related to the internal practices of firms in Jamaica, Chart 8 lists the specific indicators of such practices (with their global ranking) underlying the GCI pillars. Evidently, this list points to a host of relevant matters which deserve closer attention by business leaders.

Chart 8. Strength/Weakness in Internal Practices of Business, 2010-11	
Pillar/Indicator	Rank (out of 139)
Goods market efficiency	80
Intensity of local competition	72
Extent of market dominance	93
Degree of customer orientation	117
Labor market efficiency	83
Reliance on professional management	58
Hiring & firing practices	59
Female participation in labor force	78
Cooperation in labor-employer relations	115
Pay & productivity	116
Financial market development	46
Soundness of banks	47
Financing through local equity market	47
Availability of financial services	63
Affordability of financial services	95
Venture capital availability	125
Ease of access to loans	128
Technological readiness	60
Availability of latest technologies	52
Firm-level technology absorption	75
Internet bandwidth	78
FDI and technology transfer	90
Business sophistication	81
State of cluster development	79
Extent of marketing	82
Value chain breadth	83
Local supplier quality	84
Willingness to delegate authority	89
Production process sophistication	92
Control of international distribution	102
Local supplier quantity	111
Innovation	93
Utility patents per million population	53
University-industry collaboration in R&D	66
Quality of scientific research institutions	67
Company spending on R&D	83
Capacity for innovation	107

Source: *The Global Competitiveness Report 2010-2011*,
World Economic Forum.

6.0 Demand-side Constraints

Demand-side constraints affect the capacity of firms to sell products and depend on the specific sources of demand. One such source is exports, the direct effect of which is industry specific and firm specific, depending crucially on the proportion of exports in total sales which varies widely by industry and by firm. But there is also an attendant indirect or spillover effect of exports on aggregate domestic demand since domestic demand is highly dependent on income from exports. Therefore the domestic component of firms' sales is affected as well by exports. Aggregate demand is also strongly influenced by government expenditure and by private investment, while imports constitute a leakage from the demand pool.

The actual composition of aggregate demand in Jamaica is shown in Chart 9.

Chart 9. Composition of Aggregate Demand, 2009 (current prices)		
	J\$mn	Percent of GDP
Gross Domestic Product at market prices	1,083,448.30	
Private Final Consumption Expenditure	884,373.60	81.6
Government Final Consumption Expenditure	170,007.70	15.7
Net National Savings	73,967.30	6.8
Exports of Goods & Services	357,349.17	33.0
Imports of Goods & Services	562,468.99	51.9

Source: Statistical Institute of Jamaica; Bank of Jamaica.

Exports from Jamaica have declined significantly in recent years, in large part as a direct result of the ongoing recession in the global economy, and in the US economy in particular as the largest market for Jamaica's exports. There is little that Jamaica-based firms can do in the near term to combat this effect insofar as its origins go beyond their reach. However, there is still scope for adopting a strong marketing effort to project an improved market presence through advertising. In the medium term, there is need to focus as well on developing a supply response that strengthens the capacity for market penetration through creative efforts to improve the quality and attractiveness of the product and to diversify both products and markets.

Government can provide constructive support and aid to this process in various ways, on the supply side certainly (as indicated in the previous section) and on the marketing side as well. The specific firms and sectors involved also bear a special responsibility to exercise initiative in this process and to share the attendant costs. Wider deployment and strengthening of the business-network model, currently practiced by a number of

progressive Jamaica-based firms and widely used internationally, is recommended here as the most effective mechanism for reducing transaction costs, realizing economies of scale, and providing a platform for penetrating export markets.

At the present moment, a critical issue on the demand-side concerns the ongoing effects that the current program of fiscal consolidation being carried out under the GOJ's stand-by agreement with the IMF is having on the state of domestic demand in Jamaica. The actual effects have been closely followed and systematically studied by the PIOJ and reported in published documents (see Chapter 6). These reports point to a definite need to create fiscal space in the IMF program to accommodate measures that would help to stimulate domestic demand, remove structural impediments, and thereby offset the pro-cyclical effects of other features of the program.

It is also recognized that a demand stimulus, though necessary, is not sufficient to set the economy on a growth trajectory. It should be complemented by strategic interventions specifically oriented to promote growth at the industry and firm level.

7.0 Towards a Differentiated Mix of Strategic Interventions

The preceding analysis helps to set the stage for sorting out the range of options that come into play in seeking to design a growth-inducement strategy for the Jamaican economy in the current context. It also points a clear way towards a rational and balanced program of action that can respond to the challenge. In particular it points to the necessity of adopting a differentiated mix of interventions that address the array of constraints identified here and the complex factors underlying them.

Because of limited resources and time, it is also necessary to establish priorities and to focus effort on a limited set of targeted areas for action to be implemented in an appropriate sequence over time. Limited resources and the time frame of a medium-term strategy (three years) set limits on what can be done and what results can be expected to follow.

Table 8.1. Doing Business 2010, Selected Economies

Economy	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Antigua and Barbuda	50	59	21	54	103	113	27	128	53	71	64
Bahamas, the	68	61	100	42	149	71	109	42	37	120	31
Belize	80	147	4	23	128	87	119	57	117	168	25
Costa Rica	121	127	128	110	49	61	165	154	60	132	101
Cyprus	40	25	77	93	64	71	93	37	15	107	21
Dominica	83	38	27	80	113	71	27	68	86	167	183
Dominican Republic	86	107	92	97	112	71	57	70	36	86	146
Grenada	91	52	15	49	162	87	27	82	79	162	183
Guyana	101	97	39	87	72	150	73	113	76	75	129
Haiti	151	180	126	28	129	135	165	99	144	92	155
Hong Kong, China	3	18	1	6	75	4	3	3	2	3	13
Ireland	7	9	30	27	79	15	5	6	21	37	6
Jamaica	75	19	49	39	122	87	73	174	104	128	23
Madagascar	134	12	107	152	152	167	57	74	111	155	183
Mauritius	17	10	42	36	66	87	12	12	19	66	73
Puerto Rico	35	15	149	22	124	30	16	104	105	97	30
Singapore	1	4	2	1	16	4	2	5	1	13	2
Sri Lanka	105	41	168	96	148	71	73	166	65	137	45
St. Kitts and Nevis	76	86	8	19	153	87	27	100	53	114	183
St. Lucia	36	36	12	20	76	87	27	40	103	165	47
St. Vincent and the Grenadines	70	45	3	57	137	87	27	62	52	102	183
Suriname	155	171	98	70	168	135	180	32	101	178	149
Taiwan, China	46	29	97	153	30	71	73	92	33	90	11
Trinidad and Tobago	81	65	82	45	170	30	20	56	49	169	183

Source: *Doing Business Report 2010*, World Bank

Table 8.2. Jamaica: Doing Business, Indicators, 2006-2010

Indicators	Rank, Year					Correlation with time*
	2010	2009	2008	2007	2006	
Number of Economies	183	181	178	175	155	
Ease of Doing Business	75	67	63	50	43	0.989
Starting a Business	19	12	11	10	..	0.885
Dealing with Construction Permits	49	48	74	93	..	-0.942
Employing Workers	39	37	33	26	..	0.968
Registering Property	122	129	108	107	..	0.790
Getting Credit	87	84	115	101	..	-0.662
Protecting Investors	73	70	64	60	..	0.993
Paying Taxes	174	175	170	163	..	0.901
Trading Across Borders	104	102	92	74	..	0.942
Enforcing Contracts	128	126	103	46	..	0.909
Closing a Business	23	23	22	23	..	0.258

*Data adjusted for differences over time in the number of economies.

Source: *Doing Business Report*, various years, World Bank.

Table 8.3. Jamaica: Doing Business 2010, Indicators and Details

Indicator	Rank (out of 183)	Value
Ease of doing business 2010	75	
Ease of doing business 2009	67	
Starting a business	19	
Procedures (number)		6
Time (days)		8
Cost (% of income per capita)		5.3
Minimum capital (% of income per capita)		0
Dealing with construction permits	49	
Procedures (number)		10
Time (days)		156
Cost (% of income per capita)		265.7
Employing workers	39	
Difficulty of hiring (index = 0-100)		11
Rigidity of hours (index = 0-100)		0
Difficulty of redundancy (index = 0-100)		0
Rigidity of employment (index = 0-100)		4
Redundancy cost (weeks of salary)		62
Registering property	122	
Procedures (number)		6
Time (days)		55
Cost (% of property value)		9.5
Getting credit	87	
Strength of legal rights (index = 0-10)		8
Depth of credit information (index = 0-6)		0
Public registry coverage (% of adults)		0
Private bureau coverage (% of adults)		0
Protecting investors	73	
Extent of disclosure (index = 0-10)		4
Extent of director liability (index = 0-10)		8
Ease of shareholder suits (index = 0-10)		4
Strength of investor protection (index = 0-10)		5.3
Paying taxes	174	
Payments (number per year)		72
Time (hours per year)		414
Total tax rate (% of profit)		51.3

Indicator	Rank (out of 183)	Value
Trading across borders	104	
Documents to export (number)		6
Time to export (days)		21
Cost to export (US\$ per container)		1,750
Documents to import (number)		6
Time to import (days)		22
Cost to import (US\$ per container)		1,420
Enforcing contracts	128	
Procedures (number)		35
Time (days)		655
Cost (% of claim)		45.6
Closing a business	23	
Time (years)		1.1
Cost (% of estate)		18
Recovery rate (cents on the dollar)		64.5

Source: *Doing Business Report 2010*, World Bank

Table 8.4. Global Competitiveness Index, 2006-07 – 2010-11, Selected Economies

Region/Country	2010-11		2009-10		2008-09		2007-08		2006-07	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Number of Countries	139		133		134		131		122	
Caribbean										
Barbados	43	4.5	44	4.4	47	4.4	50	4.3	41	4.7
Puerto Rico	41	4.5	42	4.5	41	4.5	36	4.5	n/a	n/a
Costa Rica	56	4.3	55	4.2	59	4.2	63	4.1	68	4.1
Suriname	..	..	102	3.6	103	3.6	113	3.4	104	3.5
Trinidad & Tobago	84	4.0	86	3.9	92	3.9	84	3.9	76	3.9
Dominican Republic	101	3.7	95	3.8	98	3.7	96	3.7	93	3.7
Jamaica	95	3.9	91	3.8	86	3.9	78	3.9	67	4.1
Belize										
Guyana	110	3.6	104	3.6	115	3.5	126	3.2	113	3.3
Other Regions										
Singapore	3	5.5	3	5.5	5	5.5	7	5.4	8	5.6
Hong Kong	11	5.3	11	5.2	11	5.3	12	5.4	10	5.5
Ireland	29	4.7	25	4.8	22	5.0	22	5.0	22	5.2
Cyprus	40	4.5	34	4.6	40	4.5	55	4.2	49	4.3
Taiwan	13	5.2	12	5.2	17	5.2	14	5.2	13	5.4
Mauritius	55	4.3	57	4.2	57	4.2	60	4.2	55	4.2
Malta	50	4.3	52	4.3	52	4.3	56	4.2	51	4.2
Sri Lanka	62	4.2	79	4	77	4	70	4.0	81	3.8
Madagascar	124	3.5	121	3.4	125	3.4	118	3.4	111	3.3

Source: *The Global Competitiveness Report*, various years, World Economic Forum.

Table 8.5

Jamaica: Global Competitiveness Index (GCI), overall and in detail, 2010-11*

Indicator	Rank (out of 139)
GCI 2010-11	95
GCI 2009-10 (out of 133)	91
GCI 2008-9 (out of 134)	86
A. Basic Requirements	103
1. Institutions	85
Strength of auditing & reporting standards	38
Protection of minority shareholders' interests	50
Judicial independence	51
Strength of investor protection	59
Transparency of government policy making	64
Ethical behavior of firms	64
Property rights	73
Business costs of terrorism	76
Diversion of public funds	78
Intellectual property protection	79
Irregular payments and bribes	79
Efficiency of legal framework in challenging regulations	81
Efficiency of legal framework in settling disputes	85
Efficacy of corporate boards	91
Wastefulness of government spending	98
Public trust of politicians	107
Reliability of police services	109
Burden of government regulation	112
Favoritism in decisions of government officials	116
Organized crime	134
Business costs of crime & violence	136
2. Infrastructure	65
Quality of port infrastructure	31
Quality of air transport infrastructure	47
Mobile telephone subscriptions	49
Quality of overall infrastructure	64
Quality of roads	71
Available airline seat kilometers	71
Quality of electricity supply	83
Fixed telephone lines	89
Quality of railroad infrastructure	n/a
3. Macroeconomic environment	137
National savings rate	75
Country credit rating	89
Interest rate spread	111
Inflation	119
Government budget balance	131
Government debt	132
4. Health and primary education	102
Tuberculosis incidence	18
Business impact of tuberculosis	54
Life expectancy	83
Business impact of malaria	84
Malaria incidence	84
Quality of primary education	89
Infant mortality	91
Business impact of HIV/AIDS	108
HIV prevalence	114
Primary education enrollment rate	119

Indicator	Rank (out of 139)
B. Efficiency Enhancers	80
5. Higher education & training	80
Extent of staff training	49
Secondary education enrollment rate	55
Quality of management schools	70
Internet access in schools	80
Tertiary education enrollment rate	86
Quality of the educational system	98
Local availability of research & training services	99
Quality of math & science education	115
6. Goods market efficiency	80
Time required to start a business	27
Number of procedures required to start a business	34
Prevalence of foreign ownership	46
Agricultural policy costs	48
Business impact of rules on FDI	51
Prevalence of trade barriers	62
Effectiveness of anti-monopoly policy	62
Buyer sophistication	69
Intensity of local competition	72
Extent of market dominance	93
Trade tariffs	95
Total tax rate	105
Degree of customer orientation	117
Extent & effect of taxation	121
7. Labor market efficiency	83
Rigidity of employment	8
Reliance on professional management	58
Hiring & firing practices	59
Flexibility of wage determination	65
Female participation in labor force	78
Redundancy costs	95
Brain drain	98
Cooperation in labor-employer relations	115
Pay & productivity	116
8. Financial market development	46
Legal rights index	20
Regulation of securities exchanges	23
Restriction on capital flows	47
Soundness of banks	47
Financing through local equity market	47
Availability of financial services	63
Affordability of financial services	95
Venture capital availability	125
Ease of access to loans	128
9. Technological readiness	60
Internet users	38
Availability of latest technologies	52
Broadband internet subscriptions	72
Firm-level technology absorption	75
Internet bandwidth	78
FDI and technology transfer	90
Continued	

Table 8.5 (continued)

Indicator	Rank (out of 139)
10. Market size	99
Domestic market size index	97
Foreign market size index	104
C. Innovation & Sophistication Factors	86
11. Business sophistication	81
Nature of competitive advantage	31
State of cluster development	79
Extent of marketing	82
Value chain breadth	83
Local supplier quality	84
Willingness to delegate authority	89
Production process sophistication	92
Control of international distribution	102
Local supplier quantity	111
12. Innovation	93
Utility patents per million population	53
University-industry collaboration in R&D	66
Quality of scientific research institutions	67
Company spending on R&D	83
Government procurement of advanced tech products	92
Capacity for innovation	107
Availability of scientists & engineers	123

* Details listed by order of rank within each “pillar”.
Source: *The Global Competitiveness Report 2010-2011*, World Economic Forum.

Table 8.6. Corruption Perception Index, 2000-2010, Selected Economies

Region/Country	Rank									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Number of Countries	180	180	179	163	159	146	133	102	91	90
Caribbean										
Barbados	20	22	23	24	24	21	..	..	..	..
St. Lucia	22	21	24	..	..	..	..	..	..	..
St. Vincent & Grenadines	31	28	30		..	..	..	..	..	..
Dominica	34	33	37	53	..	..	..	..	..	..
Puerto Rico	35	36	..	..	..	..	..	..	..	..
Costa Rica	43	47	46	55	51	41	..	40	40	..
Cuba	61	65	61	66	59	62	43	..	..	30
Suriname	75									
Trinidad & Tobago	79	72	79	79	59	51	43	33	31	..
Grenada	..	..	79	66	..	..	..	..	..	..
Dominican Republic	99	102	99	99	85	87	70	59	63	..
Jamaica	99	96	84	61	64	74	57	45	..	..
Belize	..	109	..	66	62	60	..	..	..	..
Guyana	126	126	123	121	117	..	..	..	..	..
Haiti	168	177	177	163	155	145	131	89	..	..
Other Regions										
Singapore	3	4	4	5	5	5	5	5	4	6
Hong Kong	12	12	14	15	15	16	14	14	14	15
Ireland	14	16	17	18	19	17	18	23	18	19
Cyprus	27	31	39	37	37	36	27	..		..
Taiwan	37	39	34	34	32	35	30	29		
Mauritius	42	41	53	42	51	54	48	40	40	37
Malta	45	36	33	28	25	25	..	..		..
Sri Lanka	97	92	94	84	78	67	66	52		..
Madagascar	99	85	94	84	97	82	88	98		..

Source: Transparency International

Table 8.7 Business Environment Constraints for Firms – Comparison across Economies & Regions
(per cent of firms identifying each constraint)

Rank*	Constraint	Jamaica	Jamaica Exporters	Jamaica Non-Exporters	Costa Rica	Dominican Republic	Mauritius	Latin America & Caribbean	East Asia & Pacific	Eastern Europe & Central Asia	Middle East & North Africa	OECD	South Asia	Sub-Saharan Africa	All countries
	Year	2005	2005	2005	2005	2005	2009	..	..	..	..	..	..	..	..
	Observations	94	..	..	343	225	398	..	..	..	..	..	..	..	..
1	Tax Rates	60.0	57.9	60.0	38.2	51.1	25.1	36.7	23.1	40.1	45	21.5	23	38	35.4
2	Crime, Theft and Disorder	55.1	63.2	52.2	28.0	62.7	41.5	34.7	18	27	19.7	6.8	20.9	27.7	25.5
3	Tax Administration	49.4	52.6	49.3	19.0	32.4	16.2	27.5	15.5	21.1	32.7	16.9	17.9	26.2	23.5
4	Corruption	46.1	47.4	44.9	39.9	72.9	50.7	53.6	28.9	33.5	50.9	8.1	33.8	34.6	36.6
5	Electricity	45.6	57.9	42.9	16.6	81.3	42.9	39.0	24.1	35.1	42.9	6.1	53.4	50.1	39.3
6	Access to Finance	43.8	42.1	43.5	44.6	32.9	46.3	27.8	19.4	24.1	33.6	13	23.3	45.6	30.9
7	Labour Skill Level	41.6	42.1	40.6	13.4	30.7	45.7	31.5	23.5	29.7	38.8	10.7	15	20.3	25.3
8	Customs & Trade Regulations	33.7	42.1	30.3	14.9	19.6	17.7	16.4	14.3	13.8	23.6	6.8	12.3	20.1	16.5
9	Labour Regulations	19.1	10.5	21.7	24.2	13.8	8.8	18.0	8.9	9.8	23.6	10.2	10.7	7.8	11.4
10	Transportation	15.6	15.8	14.3	15.7	20.0	45.8	19.0	16.4	19	21.5	7.4	18.6	26.8	20.7
11	Business Licensing and Permits	12.4	10.5	11.6	14.0	10.7	18.6	15.9	9.3	15.8	26.8	9.7	11.9	15.5	15.2

*Ranking by firms in Jamaica

Source: *Enterprise Surveys*, World Bank Group

Table 8.8
Jamaica: Most Problematic Factors for Doing Business

Factors	Percent of Responses
Crime and theft	22.9
Inefficient government bureaucracy	13.1
Corruption	12.7
Access to financing	8.7
Inadequately educated workforce	8.7
Inflation	8.2
Poor work ethic in national labour force	7.8
Tax rates	6.6
Policy instability	2.8
Tax regulations	2.8
Inadequate supply of infrastructure	2.1
Restrictive labour regulations	1.4
Foreign currency regulations	1.4
Poor public health	0.6
Government instability/coups	0.1

Source: *The Global Competitiveness Report 2010-2011*,
World Economic Forum.

Chapter 9

Internal Logistics and Jamaica's Competitiveness ⁴²

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1.0 Summary

It is the contention of this paper that, of the factors that militate against the sustainable and robust development of the Jamaican economy, the poor state of internal logistics is one of the most debilitating. This assertion is based on the following factors: high transport costs per km, the low riding comfort index, and low average riding speeds, the poor road layout and inadequate levels of maintenance, warehousing, and forwarding infrastructure. This is in spite of the fact that Jamaica has one of the highest ratios of road networks to land area in the world.

The paper looks specifically at how improving the freight logistics performance in Jamaica could improve the competitiveness of communities, companies and, by extension, the economy as a whole.

2.0 Diagnosing Logistics Performance in the LAC Region

Internal logistics refers to that component of supply chain management which centers on the flow of goods (the movement, storage, gathering, and delivery of people, goods, and services) throughout the value chain – and not international logistics for which Jamaica has developed quite a high profile and has attracted much attention.

It involves organization of inventory, production, and distribution strategies. It relates to balancing or optimizing transport volumes at lower unit costs with storage and inventory constraints which could include space and time factors, such as deterioration, cost of storage, energy, etc. (Barbero, 2010).

Globalization and trade liberalization has ultimately led to the increasing importance of managing logistics costs in order to gain global competitiveness. Logistics costs affect the entire value chain since they impact the production function. Developing Jamaica's capacity to be a regional transportation and logistical hub is a priority initiative of *Vision 2030 Jamaica* and the Medium Term Socio-Economic Policy Framework (MTSEPF). Increased efficiency in freight logistics and the advancement of trade facilitation

⁴² This paper is an edited version of the oral presentation given at the 15th Annual General Meeting of the Jamaica Social Investment Fund on October 06, 2011.

infrastructure will effectively enable new regional players to enter the global economy – promoting competition, improving distribution and reducing logistics costs of companies, and allowing firms to take advantage of market access opportunities created through regional and multilateral trading agreements.

Figure 9.1. LPI Ratings: Regional Comparisons

Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Europe & Central Asia (regional average)	2.74	2.35	2.41	2.92	2.6	2.75	3.33
East Asia & Pacific (regional average)	2.73	2.41	2.46	2.79	2.58	2.74	3.33
Middle East & North Africa (regional average)	2.6	2.33	2.36	2.65	2.53	2.46	3.22
Latin America & Caribbean (regional average)	2.74	2.38	2.46	2.7	2.62	2.84	3.41
Jamaica	2.53	2	2.07	2.82	2.32	3.07	2.82

Source: World Bank, LPI 2011.

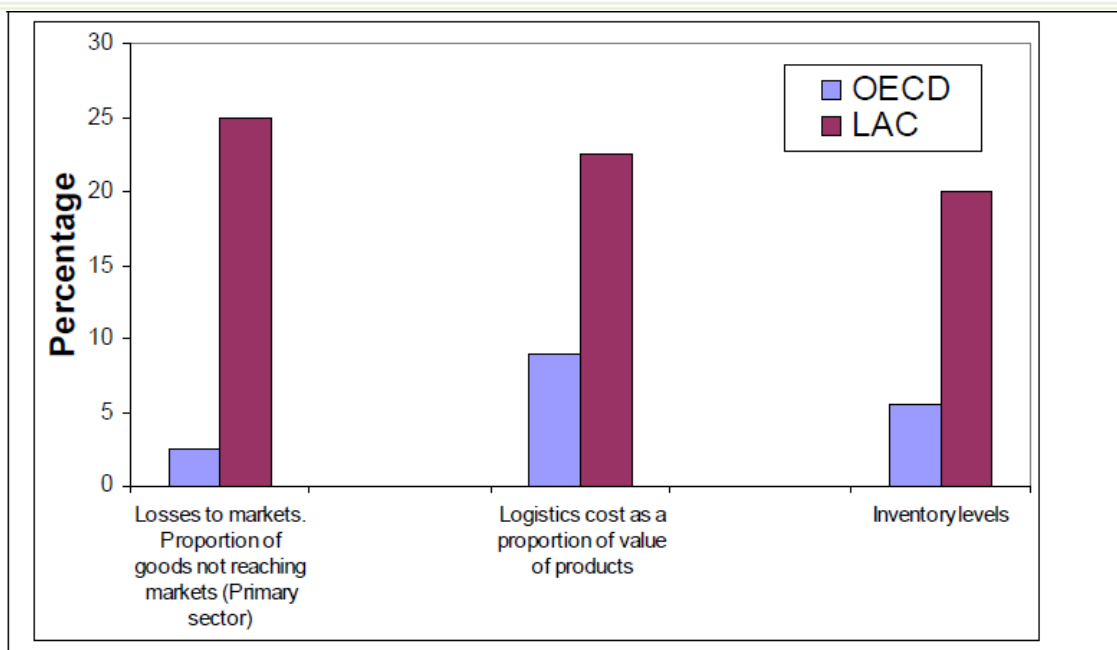
The Logistics Performance Index and its indicators provide the first in-depth, cross-country assessment of the logistics gap and constraints facing countries. Based on a 1 to 5 scale (lowest to highest performance), the LPI and its indicators underscore significant differences in logistics performance across countries and regions. Countries that rank highest on the LPI are typically hubs and/or key players in the logistics industry. In 2010, Jamaica ranked 108 out of 155 countries with an LPI score of 2.53, which was below the regional averages for Europe, Asia, the Middle East & North Africa, and Latin America & the Caribbean. Jamaica excelled in International Shipments and Tracking and Tracing while Customs and Infrastructure are indicated as the areas of greatest under-performance.

Poor logistics performance has also led to higher transportation costs for the region relative to its counterparts – logistics costs in Latin America and the Caribbean (LAC) range between 18 and 34 percent of product value, while the OECD benchmark is 9 percent (IDB, 2009). Without a renewed focus on trade facilitation measures – including physical infrastructure, overall land use and planning for logistic corridors and multimodal transport services, and regulatory frameworks to simplify international trade procedures – the region will continue to be left out of self-reinforcing production and trade networks while transport and logistics costs will make it more difficult to compete at the global level (Guerrero, 2009).

3.0 The Burdens of LAC's Logistics Costs

Studies show that the logistics “burdens” of individual LAC countries’ average 18 to 40 per cent of GDP, as compared to 9 to 10 per cent for OECD countries (Gausch, 2009). In addition, traditional indicators such as the percentage and density of paved roads, port capacities, and vessel turnaround times, or qualitative indicators based on perceptions, all suggest that LAC’s transport infrastructure, with a few exceptions, lags behind other regions of the world, both developing and developed.

Figure 9.2. Logistics Infrastructure Contribute to Uncompetitive Industries



Source: Gonzalez & Guasch (2007)

The above provides a comparison of average inventory levels in Latin America and the OECD. If we consider inventories have an associated financial cost, the fact that inventory levels in LAC are three times higher than in the OECD translate into a significant competitive disadvantage. The need to have better logistics is in part explained in the first column. While the effect of higher inventories and transit losses are compounded as a higher proportion of logistics costs to product value.

In LAC, logistics costs range from 18 to 34 per cent of product value – and even higher for small and medium-sized enterprises. Therefore effective logistics management and adequate infrastructure are required to prevent logistics costs from becoming an obstacle to productivity and competitiveness (see Figure 9.2).

Although six critical factors were identified in explaining the Region's weak performance (Barbero, 2010), we shall only consider three here, namely;

1. the condition of the road network
2. performance of road freight transportation and
3. performance of SMEs in supply chain management and logistics.

The other critical factors - ports, railroad and trade facilitation, and border controls – are not considered as critical to the thesis that this paper wishes to examine. The impact of logistics cost on competitiveness, productivity, trade, integration, food prices, inequality, and poverty is significant.

4.0 The Condition of Jamaica's Road Network

While Jamaica boasts a uniquely extensive road network, under-investment in their maintenance and rehabilitation has rendered them inadequate to withstand natural disasters and support the significant increase in business, traffic growth and modern responsive logistics operations. Improvements in road networks have a direct influence on freight logistics and other mobility costs. But even when investments are made – they are subject to damage from tropical storms, sub-optimal designs, or lack of maintenance that increase travel times, reduce riding comfort, and increase stress to drivers. The North Coast highway has made a phenomenal transformation to many communities on the North Coast – such as increased investments, new urban developments, etc. However logistics is still sub-optimal in certain sections due to extended travel times resulting from its alignment through built-up areas and towns, with pre-cautionary speed limits. The two major connectors between Kingston and the North Coast Highway, namely “Flat Bridge/Bog Walk” and “Junction” Road involve long travel times which demand high driver attention resulting in elevated stress levels.

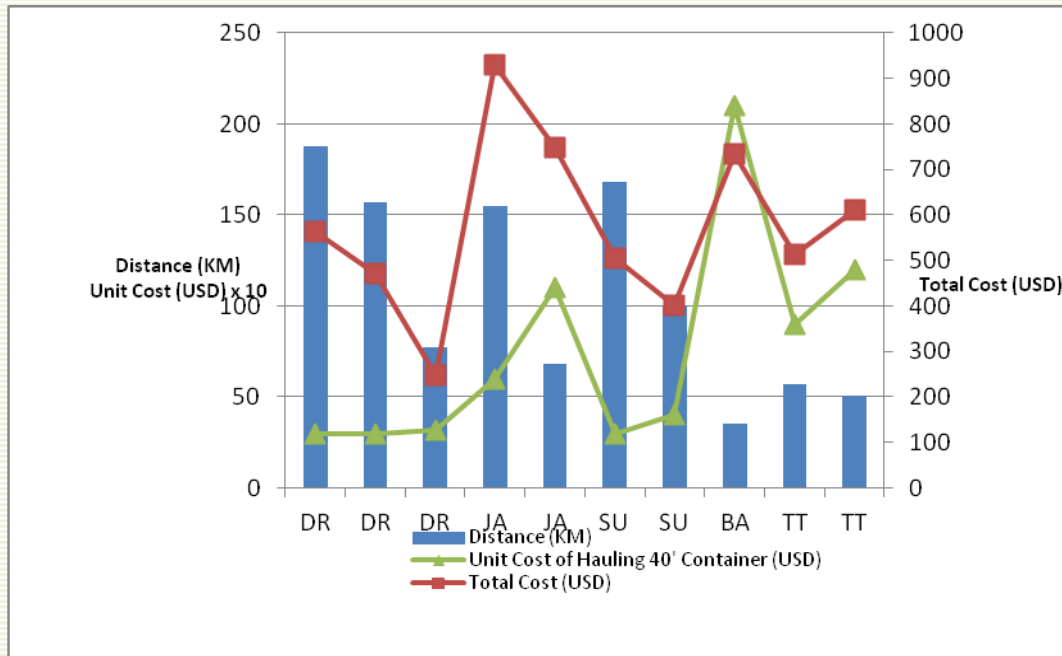
4.1 Performance of Road Freight Transportation

The second factor is road freight transport that includes both movement and storage of goods. The efficiency of a country's trucking sector plays a role in its overall logistic cost structure. Jamaica's logistics profile shows high cost per tonne of moving goods between the key producing and consumption centres. e.g. Kingston, Montego Bay, and Mandeville (agro producing areas of St Mary, etc). This can be compared with international comparators and regional competitors like Suriname, Barbados, Bahamas, Cost Rica, and Dominican Republic.

In addition, issues exist with respect to mechanical condition and overloading of freight trucks and the consequent damage to the road pavement and reduced road safety

conditions. These combined with a poor road network and mountainous topography could be responsible for the higher relative transport costs.

Figure 9.3. Internal Logistical Costs Comparison in Select Countries



Source: Ebanks (2011)

The cost of transporting freight in Jamaica (JA) exceeds that of countries such as Suriname (SU) and Dominican Republic (DR). Even over shorter distances, Jamaica charges are in excess of regional competitors. This increases the internal distribution costs and the percentage of logistics in final prices for local consumption as well as export.

Warehousing and distribution facilities are insufficient and inadequate for optimal product distribution resulting in poor scheduling, poor delivery compliance or high product deterioration. High inventory costs are an important logistics bottleneck for the region as a whole, driving up the cost of delivered products.

For LAC businesses, the World Bank calculates that inventory costs equal 35 percent of GDP, compared to only 15 percent of GDP for businesses in the United States.⁴³ This can be explained by the fact that beyond the roads themselves, the storage networks of many of the region's countries are substandard, there is a lack of effective instruments for financing inventories⁴⁴, warehouses lack competition and the rates of storage space rental are higher in LAC compared to other regions.

4.2 Performance of SMEs in Supply Chain Management and Logistics

Small and Medium Enterprises (SMEs) play an important role in any country's economy and contribute immensely to industrial development, exports and foreign exchange earnings, and creation of employment opportunities. However SMEs present a very distinct problem that is particularly relevant for Jamaica and the Jamaica Social Investment Fund. Recent research shows that SMEs generally experience higher costs related to freight logistics and value chain optimization. This is in part due to limitations in load size and lack of access to warehousing; and particularly the technical expertise to understand the significant effects that sub-optimal logistics have on all businesses. Many larger companies invest in warehousing and modify their operations to permit JIT or optimal delivery – particularly of agro-produce. However, SMEs are likely to suffer proportionally higher product deterioration and higher freight costs which erode their profit margin.

Generally, across the LAC region, there is a growing shortage of warehousing capacity in the agricultural sector, which has proven to be particularly costly for small shippers. This is broadly reflective of the situation in Jamaica where the majority of firms fall into the SME category and where agriculture is the mainstay of many rural communities. From the firm's perspective, domestic logistics costs in LAC may be the largest single cost element of the final price of a good and these logistics costs are most sensitive to the size of the firm. Domestic logistics costs can total over 42 per cent of the price of firms' sales. By comparison, larger firms spend between 15 and 18 per cent of sales on logistics. The higher proportion is explained by factors such as lack of access to warehousing, storage and transfer facilities and the quality of the infrastructure and trucking services that link rural markets, smaller towns, and secondary cities to large production and consumption centers. (Vina del Mar, Chile, 2009)

The effects of internal logistics will now be examined on two specific sectors that have relevance for the work that JSIF is doing in catalyzing development in poorer communities and which also demonstrates the impact of internal freight logistics on productivity and growth.

⁴³ World Bank report: *Logistics, Transport and Food Prices in LAC: Policy Guidance for Improving Efficiency and Reducing Costs*. 2009.

⁴⁴ Proposals for collateralizing inventories have been completed under supervision of the PIOJ and now await updated legislation for implementation.

Figure 9.4. Proportion of Primary Agriculture Contributing to Intermediate Demand for Countries in the Americas

Country	% of Primary Agricultural Production Going to Intermediate Demand*
Argentina	69.2
Brazil	72.0
Canada	73.9
Chile	66.8
Columbia	54.1
Costa Rica	56.9
Jamaica	39.0
Mexico	64.9
Peru	54.4
United States	79.8
Uruguay	65.3
Venezuela	60.7
Average**	73.8

Source: *Contribution of Agriculture to Sustainable Development in Jamaica*, IICA 2009.

* Serving as inputs to the rest of the economy, inclusive of agro- processing, hotels and restaurants.

** Weighted average excluding Jamaica

According to the Inter-American Institute for Cooperation on Agriculture (IICA), the performance of agriculture and its contribution to countries' economic development has traditionally been undervalued due to the non-measurement of its backward and forward linkages with agro industry, the services and trade sectors, and, in general, the rest of the economy. If agriculture's contribution is calculated using the extended approach that takes into account its interdependence with the food and agro industry sector, national figures are usually higher.

Although the agricultural sector's spillover effect on the Jamaican economy is fairly high, it still lags behind those for its regional and international comparators.

5.0 Infrastructure and Agriculture

One of the sectors that have consistently contributed to economic growth in Jamaica is agriculture. Jamaica has an enviable built and institutional infrastructure for both animal and crop production. It has over the years built an international reputation for high quality agro products; bananas, Blue mountain coffee, sorrel, rum, papayas, ackee and lately with possibilities for the exports of yam based on the testimonies of Olympic sprinter Usain Bolt. However much of this production capacity and human resource lies idle or underutilized.

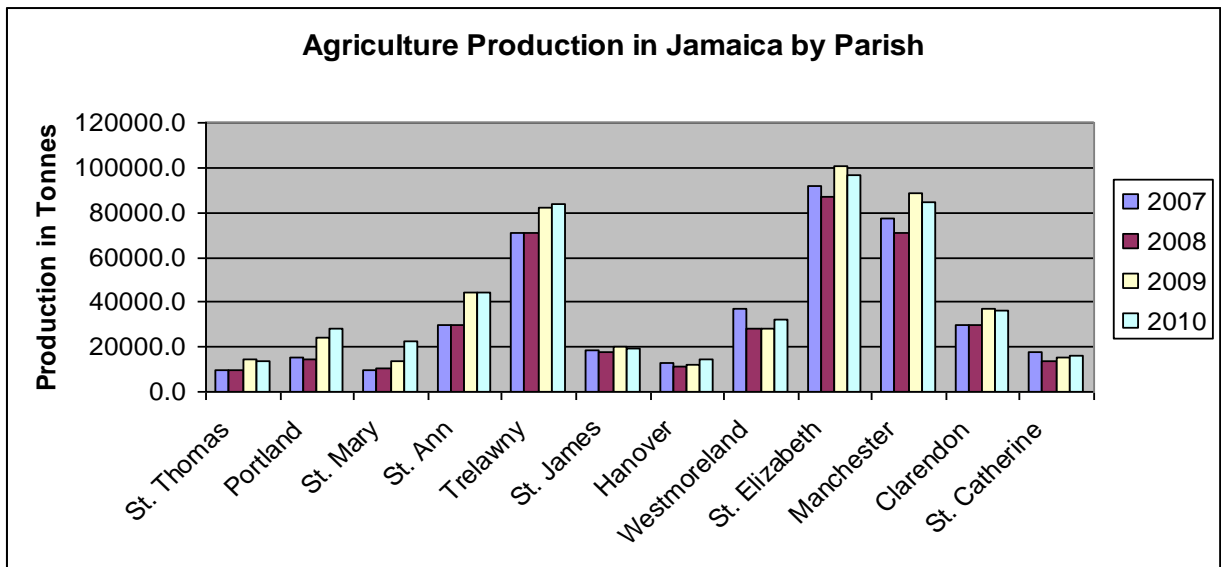
There are serious challenges for the sustainability of rural agriculture. A key factor is the cost, reliability, quality of product and delivery to major markets such as Kingston, the major tourism plant on the North Coast and to the port for export. Typically, smaller producers and local agriculture traders are the most heavily affected by dilapidated roads and failures in trucking regulation.

Extensive empirical studies demonstrate that investment in infrastructure is essential to increase farmers' access to input and output markets, to stimulate the rural non-farm economy and vitalize rural towns, to increase consumer

demand in rural areas, and to facilitate the integration of less-favored rural areas into national and international economies.

The intuitive link between agriculture and the tourism industry in Jamaica has not materialized to the extent expected. The key issue cited is reliability – the ability to provide product on demand and at the quality and price demanded. This has been blamed on the poor condition of farm roads, and the lack of adequate storage, warehousing, packaging facilities, and modern logistics techniques. However the same constraints that challenge local agriculture’s ability to supply the hotel industry are the same constraints that create artificial gluts and shortages on the local market leading to depressed prices and low returns for farmers. Local market integration or the ability of farmers to sell their produce competitively across the length and breadth of Jamaica requires good infrastructure and effective market institutions.

Figure 9.5. Agricultural Production by Parish



The most prolific producers of agricultural production would seem to be those parishes furthest removed from the major consumption centres and for which a high proportion of the delivered cost would be attributable to transport and spoilage factors, both key determinants in internal logistics. The agricultural production of St. Thomas and Portland, both rural parishes, is well below that of the leaders. The relative transport costs per 40’ container to and from these areas are also the highest.

6.0 Logistics are Essential for Tourism Growth

Logistics are also a key determinant of productivity and competitiveness for the Tourism sector. In this case, the principal freight or cargo moved is people - from the airport to the hotel and cruise ships to beaches and attractions. In the past, the internal transfers or transit time to their accommodation for many guests exceeded the international leg of their journey, particularly in the case of visitors from the eastern seaboard of the U.S. Improvements in the logistics through modern air terminal facilities at Donald Sangster International Airport, the upgraded North Coast Road and Falmouth terminal have significantly increased both the absorptive capacity as evidenced by the mega-hotels constructed and the expansion of economic activity along the sections of the highway with good transit times.

As the competition in sun, sea and sand tourism increases, innovative responses seek to differentiate Jamaica's tourism product from others, particularly in areas of unassailable competitive advantage. Opportunities for higher value creation and differentiation exist in areas such as health services, adventure and culture tourism. Jamaica's medical facilities train and export excellent professionals. Hiking in the Blue Mountains or rafting in the many rural rivers remains largely untapped. The world-renowned cultural heritage is still under-leveraged. Increasingly the trend is for hotels to include trips to specific communities as part of culture tourism or community tourism in direct contrast to the all-inclusive model which Jamaica pioneered. Communities on the other hand are also seizing the initiative to upgrade their environment to take advantage of this opportunity for increasing their income by sharing rich daily experiences of food, culture and natural scenic beauty with tourists.

Logistics will be an essential element to sustain and grow this sector. Timely and comfortable transport to the rural locations will require a strategic rural road network that could be maintained by Parish Councils or even these very communities. The planning for movement of visitors, including the arranging of timely supplies of food and other inputs, and accommodation of visitors, are all elements of a logistics network that will determine the success of this exciting and much more embracing concept of tourism - a concept of tourism that also provides direct benefits to the wider community.

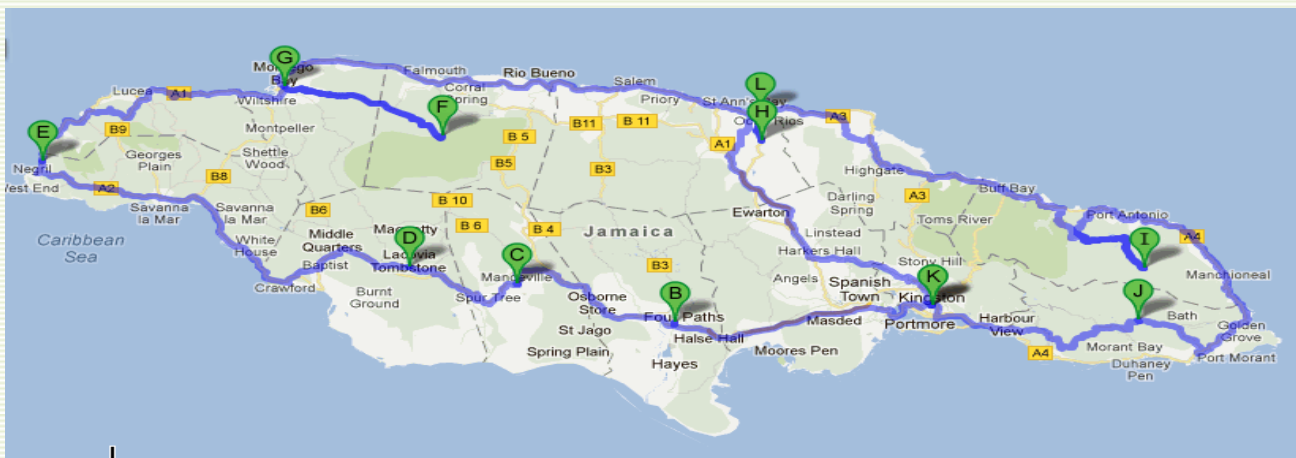
Related efforts to improve the North-South connection and the possibilities of reducing the transit time from Ocho Rios to Kingston to comfortably less than 2 hours hold phenomenal opportunities for leveraging the country's global cultural advantage and increasing the absorptive capacity and distribution of tourism benefits within the local economy at all levels. Such improved travel times would make a combination of the North Coast and culture capital Kingston possible with tours to the Bob Marley museum, theatrical performances and Trench Town locales with the consequent improvement in value-added spin off to communities and the differentiation of the Jamaica tourism product.

The future for logistics and its myriad opportunities for increased economic activity can be well seen along the alignment of Highway 2000. For example there are now possibilities for businesses to locate in Mandeville and areas along the highway corridor and comfortably conduct business in the Kingston Metropolitan Area.

More than that, however, is the opportunity to mobilize vast idle lands and under-employed human resources that will attend two critical impediments to regaining Jamaica’s prosperity – rural poverty and under performance of agriculture. Rural poverty, among other factors drives the urban drift that brings thousands of unprepared and low skilled workers to tech-savvy Kingston, only for them to fall into menial jobs, unemployment, or criminal and sub-optimal activity.

While this drift occurs, increasing acreages of valuable and high potential agriculture lands fall into disuse. Concomitantly the prospects for global food shortages loom large and food consumes an increasing share of Jamaica’s import bill, currently at over \$800 million United States dollars annually (STATIN, 2011).

Figure 9.6. Jamaica’s Road Network – Linking Agriculture and Tourism Destinations to Ports, Markets and Capital



Source: Google Maps, 2011

The map highlights the routes of several major Jamaican agricultural producing parishes and tourist destinations. Jamaica has an extensive road network but due to poor conditions of the roads linking the north coast to the capital (K), travel times and wear and tear on vehicles are significantly increased when moving freight and people to port facilities, markets, and the capital city. These place additional monetary and opportunity costs on businesses and invariably reduce the productivity and economic growth of the economy.

7.0 Fundamental Steps Forward for Jamaica

Jamaica must grow! Rurally, agriculturally, and economically. The evidence is overwhelming that sustainable growth and transformation cannot be achieved without improved logistics. Logistics drive efficiencies in agriculture and bring rural communities within easy reach of domestic and export markets creating wealth particularly in the social strata closest to the poverty line. The improvement of rural roads is broadly recognized as a fundamental precondition for the development of rural areas. Remoteness and lack of mobility are widely identified by the poor as factors which heighten their vulnerability and perpetuate their poverty (Hettige, 2006).

The upgrade, rehabilitation, and maintenance of the network of logistics infrastructure hold possibilities for community action. We can revive community participation in road maintenance not only at maintaining verges as is now done via the IDB-financed Road Improvement Program but increasingly on the travelled carriageway. This road improvement together with general environment upgrading to accommodate community tourism will require capacity building and skills training to enable proper and technically sound work by community agents. This is a job for the JSIF!

Similarly, support from agencies like JSIF can provide communities with the tools and training in logistics to improve harvesting techniques which increase the shelf life and reduce the farm to markets losses of produce and create a network of modern storage and warehousing activity either through private investment or, where margins are low, on a community basis.

This support can also encompass the third element of effective logistics - the adequate communication infrastructure to receive orders, deliver product, and process deliveries in a timely manner. This intelligent information system together with good physical road transport could result in smaller, fresher, micro-loads that have higher quality driven by consumer demand or pull factors rather than production constraints or push factors. (Bosona, 2011)

Improved distribution systems supported by the current broadband IT infrastructure can support the redirection of energies of the many road-side vendors who can perhaps be more productively employed in packaging houses, quality control, or as agricultural workers with increased income as a result of high productivity, less waste and product losses due to transit and deterioration.

The challenge going forward therefore is to re-engineer our view of transport and communication networks to construct, not necessarily roads and highways, but logistic networks that will address the slide in labour productivity. Through the measures outlined here, JSIF can play its part in harnessing Jamaica's own resources and capabilities in a synergistic manner to increase its competitiveness and growth prospects. This will in turn give its citizens better value for money and position Jamaica to be a serious exporter of value-added tourism and agro production and, as well, "the place of choice to live, work, raise families and do business".

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Part IV

Policies and Programmes

A

Asset Mobilization⁴⁵

A package of financial and tax measures is proposed for adoption, some already in the works or nearing completion. It is aimed at addressing a key issue highlighted by the analysis presented in this report: freeing up idle assets, increasing their market mobility and, hence, enabling their efficient use in production.

1. Loan Portability

It is being proposed that stamp duty on loans be abolished. It has been proven to hinder the portability of bank loans. In so doing, they facilitates the sub-optimal functioning of the capital market and stymies the allocative efficiency of said market by attaching punitive costs to the transfer of loans from one financial institution to another.

Similarly, there is need for the removal of both the stamp duty and transfer tax on corporate bonds and commercial paper, making portability less costly to the borrower and the investor.⁴⁶

Current Status: The issue of the potential loss of revenue is moot since, with the current structure, loans are not being transferred. Therefore, there is no threat to current revenue flows. This proposal is currently being implemented.

2. Secured Transactions

A secured-transactions framework allows borrowers to pledge movable property as security for a loan in a manner that removes ambiguity regarding the property that has been pledged, to whom the property has been pledged, and gives the lender the right to repossess these assets speedily in the event of payment default. Under this transformative paradigm, which will preclude the usage of traditional instruments such as Bills of Sale, security interests will be noted on a public electronic registry. This will substantially reduce the transactions cost of registering collateral interests, thereby enabling greater access to sources of finance.

⁴⁵ In consultation with the Jamaica Competitiveness Enhancement Programme, **PIOJ**.

⁴⁶ Detailed analysis of this issue is presented in Chapter IV.B.

Current Status: Cabinet by decision 42/10 dated November 15, 2010 gave approval for:

- the enactment of a new Secured Transactions framework
- the issuance of drafting instructions to the Chief Parliamentary Counsel coupled with amendments to existing legislation where there was need for consequential amendments.

These instructions were issued in January 2011 and it is anticipated that the legislation which will require extensive consultation will complete the legislative process in approximately 18 months.

3. Credit Bureau

In an effort to increase efficiency in the loan market by adopting a more definitive strategy of assessing credit risk, increasing access to finance and ultimately reducing lending rates to borrowers with a good financial track record, GOJ committed to the introduction of Credit Bureaus. To this end, the Credit Reporting Act received Parliamentary approval on August 31, 2010 and was brought into effect on October 1, 2010. The attendant regulations were finally approved on January 13, 2011.

Current Status: The regulations have not yet been gazetted. While such gazetting is imminent, the regulations are, therefore, not yet in force. This precludes the BOJ from formally accepting any applications seeking to establish a Credit Bureau. To date, there are at least three seemingly serious expressions of interest in establishing a Credit Bureau. It is anticipated that within six months at least one fully functional Credit Bureau will be operational.

4. Probate and Land Transfer

It is proposed that all duties and rates attached to the process of probate be abolished. The current system is operating at a sub-optimal level, with 50 – 60 per cent of estates not being probated as the potential beneficiaries are fearful of being forced to liquidate their inheritance in order to satisfy the onerous government rates and up-front charges applicable to decedent estates.

Table A.1 provides a detailed listing of the rates and charges typically paid in a standard probate transaction.

This issue is compounded by an onerous and costly legal mechanism particularly when parts or all of the estate need to be liquidated. This has led to a scenario where the majority of estates which would ordinarily be subjected to a process of probate are left idle or underutilized, with the beneficiaries being unable to use the property as collateral for credit. It is acknowledged that there is the likelihood of some revenue loss in the market period from removing duties and rates, but it is projected that such revenue would

Table A1. Typical Statement of Account in a Probate Transaction

TO: Executors of Estate Mr X Dec'd				
RE: Estate realty				
			DEBIT	CREDIT
APPRAISED VALUE OF REALTY				6,000,000.00
Mortgage debt owed			J\$ 3,000,000.00	
Estate Duty- 4% Transfer Tax on Death			120,000.00	
Probate Application - Court Stamp Duty			2,120.00	
Grant of Probate -3% Stamp Duty			180,000.00	
Registration fee- note death on title			1,000.00	
Registration fee- note Executors on Transmission on title,			30,000.00	
4% Transfer Tax on sale of realty			240,000.00	
3% Stamp Duty on sale -half paid by estate	180,000.00	half-	90,000.00	
.5% Registration fee on transfer,	30,000.00	half-	15,000.00	
Title Search & copy Title - Titles Office			1,000.00	
3% Attorneys Fee to obtain probate, note death & Executors on title			180,000.00	
3% Attys Fee on sale Transfer			180,000.00	
Sale Agreement costs-half paid by estate	30,000.00	half-	15,000.00	
Attorneys Miscellaneous services cost	15,000.00	half-	7,500.00	
Attorneys Fee re undertaking to pay Estate Duty			25,000.00	
17.5% G.C.T. on Legal fees & Services costs			71,312.50	
Toll calls,fax, registered mail & courier charges			5,000.00	
Bank & accounting charges (6 managers cheques @\$200)			1,200.00	
Funeral expenses			200,000.00	
17.5% G.C.T. on funeral expenses over \$100,000			17,500.00	
Property taxes arrears			5,000.00	
Certified copies of death certificates			5,000.00	
5% Real Estate Agents commission on sale			300,000.00	
17.5% G.C.T. on Agents commission			52,500.00	
Executors 6% Estate commission	360,000.00		270,000.00	
25% Income tax on Executors commission			90,000.00	
Net sale proceeds for distribution to beneficiaries			\$985,867.50	
TOTAL			\$6,000,000.00	6,000,000.00
E.& O.E.				
			EXPENSE ANALYSIS	SHARE (%)
GOVT.'S take- Trans Tax, Stamp Duties, Reg fees, GCT, Property tax			830,432.50	27.7
Attorneys fees			407,500.00	13.6
Death event & Transaction disbursements			476,200.00	15.9
Real Estate Agent fees			300,000.00	10.0
Total expenses of Probate & sale			\$ 2,014,132.50	67.1
Total sale income			6,000,000.00	
Less Estate expenses & mortgage debt			\$ 5,014,132.50	
Net sum after expenses for distribution to beneficiaries			\$ 985,867.50	32.9

Source: Information supplied by Mr. Alton E. Morgan, Attorney-at-Law.

be more than compensated for by the revenue flow garnered from the expected second sales which would occur. Moreover, the abolition of estate duty would likely boost Jamaica's development as an asset-management centre and the financial sector as a whole.

It is further proposed that in order to treat with the cumbersome legal process involved in probate, an arbitration mechanism be instituted for those estates which are not in dispute, so that persons may realize a reduction in legal costs and time associated with the process. For estates in dispute, those would revert to the normal legal process and be determined either in the Resident Magistrates Court or Supreme Court depending on the value of the estate. Under this new mechanism property valuations would be streamlined and the unimproved value of the land on the tax roll at the point of application for probate would determine the transaction value, thereby avoiding the current time-consuming and often contentious valuation exercise which seeks to retroactively determine values at the time of the owner's death.

Current Status: This proposal could be implemented within three months. The impact on investment and particularly the revenue flows from second sales would be immediate and will likely prove to be a substantial boost for the local wealth management sector.

5. Jamaican Real Estate Investment Trust

The Government remains the single largest property owner in Jamaica (22 per cent) through several state agencies including the Jamaica Railway Corporation. It is proposed that a Real Estate Investment Trust (REIT) for publicly owned lands be established. The REIT structure would be designed to provide a similar structure for investment in real estate as unit trusts or mutual funds provide for stock market investments. The fact that in Jamaica the State-owned real estate is substantially diversified across geographical markets and property asset classes is substantially beneficial to the functioning of a REIT.

The asset classes cover office, industrial, retail and hotel and other tourism facilities. This diversity helps to spread the risk in the portfolio as the property values are dynamic and are determined by varying economic fundamentals in each sector or market segment. The Jamaican REIT would continue to own this portfolio of large properties which, either due to their size or strategic value, would be available or within the reach of the average investor. These large investments would then be broken up into units of smaller value that can be purchased by private investors who become unit holders. Thus, the Jamaican REIT would be a unitized portfolio of property assets which would be traded freely on the capital market and the value of the unit price would be determined by demand and supply.

Current Status: This initiative could be implemented within an 18 to 24 month period, through the public-private partnership modality but such a process would require that an up to date inventory of all publicly owned land be developed.

6. Land registration and Title

Of the more than 800,000 parcels of land in Jamaica, approximately 47% are unregistered. They represent "idle assets" since the lack of titles severely restricts their use as capital for investment and the creation of wealth. This informality is evidenced by the fact that the Jamaican land market boasts two distinct types of land titling operating in parallel but which tend to favour increased informality (Deed system) primarily as a result of the costing and regulatory framework applicable to the formal process (Torrens).

The major land titling initiative in Jamaica at this time falls under the Land Administration and Management Programme (LAMP) which seeks to regularize and clarify parcels of land in seven parishes. While bolstered by the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act which allows for special exemptions from Transfer Taxes, Stamp Duties and discounted legal fees, the success of the programme has been less than robust. This has led to the establishment of a public private partnership involving the Korea Cadastral Survey Corporation and the launch of LAMP 2 in July 2010. This involves the expansion of LAMP's activities into St Elizabeth, Clarendon and Manchester, some of the parishes deemed to have the lowest percentages of title distribution.

Current Status: The distribution of titles under LAMP 2 in particular is likely to be constrained by an emerging capacity issue at the National Land Agency (NLA). This as the NLA has opted to check 100 per cent of all surveys conducted under LAMP 2 relative to the reported norm of 5 to 10 per cent. This will retard the timeliness of the process significantly. There are also issues of financing. Whereas the average total cost of first registration under LAMP is \$70,000 some persons are unable to identify funds to pay for same. Several private sector financial entities have been invited to participate. However, they have opted to charge onerous commercial rates and there have been no takers of these loan funds. The NHT is seeking to intervene in the market but are currently trying to source inexpensive loan funds to on-lend to qualified participants.

B

Eliminating Transfer Tax and Stamp Duty on Selected Financial Instruments⁴⁷

1.0 Background

Recent studies of Jamaica's tax system have clearly and consistently noted the negative effects of stamp duty and property transfer taxes in reducing the efficiency of the tax system, in the sense of distorting economic decision-making in undesirable ways.⁴⁸ In the case of land, the stamp duty and property tax is argued to introduce unproductive "lock-in" or "avoidance effects". That is, these taxes encourage the holding of property, or alternatively, where the property is transferred, the transfer is done in a manner to avoid the taxes (e.g. under-declaration of market value, aggressive appeal for discretionary tax relief). Estimates suggest that about 7% of the registered transactions are challenged by the tax authorities on suspicion of misreporting by transactors, while it has been noted that tax waiver requests are often granted. There are also "nuisance costs" associated with delays in the process of administering the taxes.

In the case of debt and equity securities (to the extent that such securities are within the tax base outlined in the relevant statutes), stamp and property transfer taxes increase the transactions cost of securities issuance and trading. Among other things, this increases the cost of capital market financing relative to bank financing. Therefore, stamp duties and property transfer taxes, at the margin, discourage trading in the secondary markets for commercial paper and other corporate debt.⁴⁹ This is an important consideration in the context of a financial market in which policies to reduce the cost of capital for productive activity have been frustrated by: (a) an inertial reliance on bank financing for investment projects, and (2) high bank interest rate spreads, both of which have operated to keep non-prime lending rates relatively high.

The studies cited previously made specific recommendations for reducing the burden of stamp duty and property transfer taxes but these recommendations have, at best, been only partially implemented.⁵⁰ However, current conditions (for example, the downward shift of the domestic interest rate structure in the aftermath of the Jamaica Debt

⁴⁷ In consultation with the Policy Logistics Unit, PIOJ.

⁴⁸ These studies include: *The Final Report of the Tax Policy Review Committee (The Matalon Committee)*, 2004; Roy Bahl and Sally Wallace *Tax Reform and Economic Development: The Jamaican Case* (Planning Institute of Jamaica, 2007), which was based on the detailed project reports underpinning the 2004 report of the Matalon Committee; and Vito Tanzi *Tax Reform for Stability and Growth in Jamaica* (Dialogue for Development Lecture 2007: Planning Institute of Jamaica, 2007); *A Blueprint for Taxation Reform in Jamaica* (The National Summit for Tax Reform Team, July 2009).

⁴⁹ Bahl and Wallace, *op. cit.*, p. 109.

⁵⁰ The most notable progress toward implementation has been the reduction in 2009 of the property transfer tax ad valorem rate from 7.5% to 4%.

Exchange) provide a timely opportunity to revisit the growth-enhancing effects of reducing the burden of these taxes on the domestic capital market.

2.0 Scope of the Stamp Duty and Property Transfer Taxes

Stamp duty is a tax charged for registering and legalizing documents/conveyances. In particular, capital market transactions (such as the issuance and trade in corporate debt instruments – bonds, debentures, promissory notes and commercial paper) that require documents to be stamped in order to register and legalize the transfer of the financial instruments, are liable for stamp duty. Duty rates are specified in the detailed schedule in the *Stamp Duty Act* and is split evenly between the transferor and transferee.⁵¹

Property transfer tax is levied on the transfer of “property”, which is defined to include, among other things: land, lease of land, and securities. Securities are defined in the *Transfer Tax Act* as the securities of a company, and includes any shares therein, debentures, and rights or interests in, to, or over any securities, but does not include bonds, or other securities issued by the Government of Jamaica. Further, debentures are defined as “any debentures, debenture stock or bonds of a company, whether constituting a charge on the assets of the company or not”⁵². Property transfer tax is currently levied at a rate of 4% of the market of the property being transferred and is payable by the transferor (or seller) of the property.

Based on the scope of the stamp duty and property transfer tax outlined above, stamp duty and property transfer tax would be applicable to most debt and/or equity instruments issued and traded in Jamaica’s capital markets.⁵³

3.0 Revisiting the Application of Stamp Duty and Property Transfer Taxes

In the aftermath of the Jamaica Debt Exchange (JDX), domestic interest rates have declined:

- Interest rates on Government of Jamaica (GOJ) debt instruments have declined and remained relatively low. The benchmark 6-month GOJ treasury bill rate stood at 7.99% and the BOJ 30-day open-market rate was 8.0% at end of September 2010 compared with 17.35% and 12.5%, respectively, at end of September 2009. By January 21, 2010 (approximately one year after the launch of the JDX), the GOJ benchmark rates had fallen further to 7.46%.

⁵¹ Bahl & Wallace (2007), p.69, provide an illustrative listing of objects of stamp duty. Illustrative rates for typical debt instruments are as follows: Demand promissory notes (e.g. commercial paper) - \$10 per \$200 or 5%); Bonds (given as security for the payment of any definite and certain sum of money) - \$30 per \$2000 or 1.5%. (See the schedule to the *Stamp Duty Act*).

⁵² See the *Transfer Tax Act* (emphasis added).

⁵³ There are specific exemptions from the application of the property transfer tax, notably shares quoted on the Jamaica Stock Exchange (or other recognized exchanges) and shares in unit trusts.

- Commercial Bank loan rates have also declined, albeit more modestly. The weighted average loan rate at commercial banks declined more modestly, moving from approximately 23% in January 2010 to 18% by year-end.

With returns on GOJ instruments – the nominal risk-free rate in domestic currency – at historically low levels, there is potentially an opportunity to revitalize activity in the corporate debt market as an alternative mechanism for raising short and medium-term financing for working capital and/or investment financing. The revitalization of activity in corporate debt markets, and in particular, the commercial paper market, will significantly increase competition with traditional bank loans and reduce the cost of capital for financing productive activity.

However, stamp duty and property taxes are significant impediments to the issuance and trading of corporate debt. The following “back of the envelope” calculations are illustrative. Currently, commercial bank rates for prime commercial credits are in the region of 13% - 14% per annum. We estimate the risk premium for high quality corporate debt as 5%, which is the modal commercial bank loan risk premium over the last 10 years.⁵⁴ Based on the existing rates on “risk-free” GOJ debt mentioned above - we use the rate on six-month Treasury bills as a benchmark – and abstracting from taxes and other transactions costs, it is conceivable that a dealer could structure a commercial paper instrument on behalf of an investment grade company and successfully price this debt such that:

- investors get risk-adjusted returns superior to the rate on GOJ
- the borrowing firm accesses financing at rates competitive with commercial bank rates.

However, the stamp duty applicable to demand promissory notes (of which commercial paper is an example) is effectively 5% of the value of the security (\$10 per \$200). Within this context, the tax wipes out any competitive advantage offered by the debt instrument.

The situation is further compounded by the fact that, in the case of medium to long-term debt, their marketability depends heavily on the extent to which such debt can be traded in secondary markets, subsequent to an investor acquiring these securities. However, stamp duty and property taxes would operate in a manner similar to the example above to reduce the tradeability of these securities.⁵⁵

It is also recognized that stamp duties and property transfer taxes may be a factor inhibiting the portability of loans across financial institutions, and thereby acts as a constraint on the refinancing of debt. The cost of switching property between institutions

⁵⁴ Data sourced from <http://data.worldbank.org/indicator/FR.INR.RISK/countries?page=1>

⁵⁵ To the extent that transfer taxes apply to the trading of debt securities, the 4% ad valorem rate would be additional to the applicable stamp duties.

is too expensive and this reduces competitive pressures within the traditional banking system and between banking and capital market institutions.

The GOJ's medium-term economic policy framework also embodies a commitment to financial sector reform to reduce financial sector vulnerabilities and strengthen financial sector supervision. Within the securities markets, an important source of vulnerability is the lack of diversification in financial products offered to investors and the need for securities dealers to realign their business models to reduce reliance on mainly short-term repurchase agreements ("repos") to finance their inventories of medium to long term assets. The Financial Services Commission has signalled that the re-invigoration of Collective Investment Schemes (CIS) is an important element for reducing systemic risks in the securities market. In particular, the FSC is introducing reforms aimed at strengthening the regulatory framework for CIS and importantly, allow for the establishment of a broader array on local CIS, including local mutual funds and hedge funds.⁵⁶ Current unit trusts are tax-advantaged compared with local mutual funds in a number of ways, including the fact that:

- investors in local mutual funds would be subject to 'multiple' taxation of income, first on the investment income earned by mutual funds and then on redemption of shares in the fund. Investment income earned by unit trust is exempt from income taxes
- the transfer of shares/ownership in unit trusts is not subject to transfer tax, while mutual fund shares would not currently enjoy similar treatment.

Meaningful CIS reform cannot proceed without equalization of the tax treatment of different types of CIS vehicles.

In light of the above considerations, we recommend the following measures:

4.0 Recommendations

1. Remove the stamp duty on corporate debt securities (including demand promissory notes, bonds and debentures).
2. Remove the transfer tax on the trading of debt securities, if indeed it is determined that the transfer tax is chargeable on these transactions.
3. Harmonize the tax treatment of unit trusts vis-a-vis other collective investment schemes (mutual funds) and, in the context of this particular paper, we recommend exempting the transfer of mutual fund shares from the property transfer tax.

⁵⁶ The current mutual fund regulations allow for the establishment of local mutual funds. However, due to serious inconsistencies between the securities regulations and the Companies Act as well as the unequal tax treatment of mutual funds, it is economically unfeasible to establish and operate a local mutual fund. There are currently no local mutual in operation. CIS reform is also intended to address these structural impediments.

5.0 Expected Outcomes

These measures are expected to provide strong incentives for:

- a revitalization of the market for corporate debt
- increased competition for loanable funds
- further reductions in the cost of capital for financing productive activity.

There are likely to be revenue losses which, from a programmatic perspective, would need to be accurately quantified and included in the GOJ's macroeconomic programme. However, in light of existing knowledge, we conjecture that, while total revenues from stamp duty and property transfer taxes combined have, typically, been estimated to account for 3% - 5% of total revenues, the bulk of these revenues is likely to arise from transactions in real assets (land). That is, given the low level of activity in corporate debt markets, it is unlikely that such transactions provide significant revenue yields for stamp duty and property taxes.⁵⁷

Previous studies have suggested that the negative revenue effects of reducing stamp duty and property taxes may be offset by the suitable application of a capital gains tax. We do not recommend compensatory changes in capital gains taxes, and for the following simple reason. Capital gains taxation reduces the after-tax returns to investors holding the financial instrument being taxed. In addition, the international experience strongly suggests that additional revenue yields from increased capital gains taxation are low, while administrative costs are high relative to other types of taxes, not least because of the difficulties involved in measuring capital gains for tax purposes.

⁵⁷ The revenue loss from harmonizing the tax treatment of unit trust and mutual fund shares is even more debatable given that, currently, there are no local mutual funds in operation.

C

Jamaica Venture Capital Programme⁵⁸

1.0 Introduction

The Government of Jamaica has undertaken to establish an institutional mechanism, the Jamaica Venture Capital Programme (JVCP), to provide an appropriate legal, fiscal and regulatory framework for the development of venture capital in Jamaica, with the objective of broadening and deepening the financial options available for Small and Medium Enterprises (SMEs).

A broad consensus exists among stakeholders in both the private and public sectors that there is a strong demand, but very limited supply, for venture capital investments in Jamaica. It is also recognized that, without significant fundamental interventions, existing deficiencies within the local economic environment are likely to hinder any widespread development and frustrate the objective of developing a sustainable venture capital industry.

The role of the Government, through the Development Bank of Jamaica (DBJ), is viewed as that of a catalyst for the development of the industry. In this role, the Government would eventually scale down its involvement as the leading driver of the industry, apart from its regulatory role and some level of capital involvement, when the private venture capital markets have reached a stage of maturity and sustainability.

2.0 Role of Venture Capital Financing in the Growth-Inducement Strategy

SMEs have been recognized world-wide as primary drivers for broad-based and inclusive job creation and GDP growth. Moreover among such enterprises are often found many start-up firms forming the leading edge in the process of innovation and technological change which creates new products that provide new opportunities for investment, job creation and growth.

However, such enterprises typically face limited access to the traditional and mainstream financial markets, due to a number of factors inherent in their economic status: their small size, limited or unique asset base, specialized areas of operation, lengthy start-up phase, and attendant risk-reward ratio (high risk, high reward). In order to address this problem, many countries have sought innovative financing solutions, including the establishment of venture capital industries to provide the required ‘patient’ long-term

⁵⁸ This chapter is adapted from the Development Bank of Jamaica, “Project Summary – December 15, 2011: Jamaica Venture Capital Programme” (Unpublished, December 15, 2011).

capital, mainly in the form of equity financing, as a sustainable means of financing for SMEs.

Thus, within the context of the strategic framework of the Growth-Inducement Strategy presented here, the JVCP is viewed as a flagship initiative which is intended to promote the following objectives:

- Development of entrepreneurship;
- Innovation and technological development;
- SME development;
- Increased access to, and lower cost of, financing for both early stage start-ups and established companies;
- Development of business networks (including firms oriented to technology, research, product development, management and marketing) to service the SME sector.

3.0 The Venture Capital Industry in Jamaica

Venture capital investments in Jamaica have generally operated through an informal mechanism. This includes capital available through the entrepreneur's own funds or that of friends and family. Additionally, "angel investors" have always been active, but funding through this source has depended to a great extent on access to these investors by entrepreneurs, which is a function of their level of social capital and ability to network. Formal venture capital programmes have been limited. Apart from the Jamaica Venture Fund which mobilized capital through a number of corporate entities and financial institutions in the early 1990s, there have been few or no certifications of Approved Venture Capital Companies, under Section 36 of the Income Tax Act. Moreover, the sustained environment of macroeconomic instability and the extent of Government demand for funding for its own operations were not conducive to the development of a Venture Capital industry.

In order for sustainable development of the economy to occur, the economic environment has to be conducive to long term capital formation. This requires that investors, fund managers and entrepreneurs be able to operate within a transparent legal, regulatory and taxation environment. Analysis of the Jamaican environment has identified clear gaps in this environment. Hence, the components of the JVCP will be designed to fill these gaps. The deficiencies identified in the local venture capital environment include:

- Lack of an equity culture as well as lack of trust between providers and users of capital;
- Lack of venture capital and private equity fund management expertise;
- Lack of investor knowledge of the venture capital asset class, with little or no involvement of institutional funds including pension funds;
- Lack of investment-ready entrepreneurs and SMEs, as many require training and capacity building in order to attract investors;

- Limited (formal) opportunities for networking between entrepreneurs and investors;
- A legislative and regulatory environment that is unclear, with underutilized tax incentives;
- Lack of trained advisors for the VC market, including attorneys, accountants and business advisors.

However, on the positive side, there are several environmental factors which augur well for long term private capital formation, and which suggest that the current economic context provides a good opportunity for the development of venture capital financing. These include:

- The Jamaica Stock Exchange Junior Market, which can facilitate capital market exit by venture fund investors.
- Positive changes in the macroeconomic environment, including the lowering of interest rates, lower Government debt levels and a generally improved level of macroeconomic stability.
- A more credible yield curve and more rational risk-reward relationships.
- Pension-fund reform providing a deeper pool of funds for investment in risk capital.

4.0 Operational Goals of the JVCP

The venture capital industry is expected to have developed a sustainable capacity over an initial three (3) year implementation period, with the engagement of private sector stakeholders and the mobilization of capital to provide the necessary future financing.

The following outcomes are expected to be achieved from the implementation of the JVCP:

- VC and private equity industry with appropriate taxation, regulatory and legislative underpinnings, transparent corporate governance policies;
- A sustainable deal-flow of viable, ‘investment-ready’ enterprises characterized by:
 - Knowledgeable entrepreneurs with an understanding of venture capital financing and the requirements for accessing this method of financing;
 - Improved governance, operational and financial management skills;
 - On-going training, development and capacity building through business incubators and other supporting institutions;
- Knowledgeable fund managers and other professionals, with the requisite skills and expertise to conduct due diligences, structure and manage venture capital funds and to provide timely and expert advice to entrepreneurs and investors;
- Knowledgeable investors, particularly institutional investors, with a clear understanding of the asset class and the ability to evaluate fund managers,

both local and overseas (including those from the Jamaican diaspora) investing in the local industry;

- Formalized approach to accessing capital from angel investors and venture funds through angel investor networks and venture forums;
- Establishment of venture funds and venture capital companies providing funding to SMEs at all life cycle stages. Several funds are envisaged, including seed and early stage funds as well as growth funds for established companies;
- Products and services include equity, debt, quasi-equity financing as well as mentoring and advisory services to eligible SMEs;
- Better capitalized companies able to access a wide range of financing opportunities and a greater flow of venture companies which eventually qualify for exit, by investors, through the Jamaica Stock Exchange (JSE);
- Establishment of a Venture Capital/Technology Park with incubator facilities and linkages among the Universities, entrepreneurs and research centres, such as the Scientific Research Council (see appendix... for a more detailed elaboration of the proposed Venture Capital Park concept);
- Access by industry participants to ongoing training and educational programmes, ensuring a sustainable industry, operating in accordance with international best practices. This includes the development of a local venture capital association, facilitating sharing of knowledge and expertise with international associations such as Latin American Venture Capital Association (LAVCA) and the US Venture Capital Association (USVCA).

5.0 Proposed Implementation Timeline

The project was initiated in June 2011, with preparatory work for full project launch being carried by the DBJ. Project activities currently undertaken in this project initiation phase, up to January 2012, include:

- Development of project document for submission to the International Development Partners. This includes the gap analysis and the identification of project components.
- Draft of proposal to undertake a study of the feasibility of developing a Technology Park.
- Engagement of stakeholders and conducting of stakeholder meetings and workshops
- Development of media information.
- Development of initial website for dissemination of basic information.
- Initiate plans for Conference to launch the JVCP.
- Development of contacts with external funding agencies, other country programmes and international associations.
- Development of a governance structure for the JVCP – Project Oversight and Project Steering Committees, the latter having representation from all major stakeholders .

The next phase (to July 2012) will include undertaking the following studies:

- Complete an overall design for the JVCP in order to apply for long term funding and technical assistance for the JVCP implementation.
- Undertake a review of the legal, regulatory and taxation structure and document the changes needed.
- Design and establishment of a venture fund facility in collaboration with the JSE.
- Undertaking of the study of the feasibility of developing a Technology Park.

A time bound implementation schedule is shown in table C.1.

Total funding requirements for project implementation is expected to be approximately US\$2.1 million over three years, with the majority (at least US\$1.34 million) being sought from International Development Partners (IDPs) in the form of technical and financial assistance. Counterpart funding for project implementation is expected to be provided by the DBJ.⁵⁹ In addition, the DBJ is expected to provide approximately J\$250 million in seed financing for a venture fund.

⁵⁹ This amount for the three year programme does not include an initial allocation of US\$214,000 (of which US\$150,000 is to be sourced from IDPs and the remainder to be provided as counterpart funds by the DBJ) to finance the consultancies during the first few months of 2012.

Table C.1. Proposed Implementation Schedule (FY 2012/13 - 2014/15)

Components	Jan - Mar 2012	YEAR 1	YEAR 2	YEAR 3
Component 1: Establishment of a Public Sector Executing Unit				
1.1 Administration - project unit staffing and expenses	√	√	√	√
1.2 Initial stakeholder meetings and workshops	√			
1.3 Annual stakeholder conference		√	√	√
1.4 Website development, maintenance, blogs				
Phase 1 - Basic site (Jan to Mar 2012)	√			
Phase 2 - Enhanced site		√	√	√
1.5 Quarterly newsletter		√	√	√
Component 2: Implementation of Legislation				
2.1 Professional fees for drafting legislation, rules and regulations and establishment of regulatory unit	√	√	√	√
Component 3: Identification and promotion of a deal flow of investment-ready SMEs				
3.1 Survey to profile and identify the capacity building needs of SMEs (Jan to Mar 2012)	√			
3.2 Training of eligible enterprises - seminars & workshops		√	√	√
3.3 Support of expansion of SME development programmes:				
(i) Consultancy to undertake feasibility study re: Technology Park	√	√		
(ii) Technical support to develop University-linked Entrepreneurial Centre and Technology Park		√	√	√
3.4 Joint DBJ/JSE Pilot Project - technical assistance to brokerage community in due diligence, mentoring, monitoring and venture fund investments		√	√	√
Component 4: Capacity building and training of investors, fund managers and professional advisors				
4.1 Training courses and discussion forums for fund managers and investors including institutional, corporate & angel investors		√	√	√
Component 5: Establish links with IDPs in developing the JVCP and instituting best practices				
5.1 External study tours and conferences - training and interfacing with industry experts	√	√	√	√
5.2 Establishment & promotion of the Venture Capital Association	√	√	√	√
Component 6: Launch of public-private sector venture funds				
6.1 Technical assistance to develop fund(s)	√	√	√	√
6.2 Launching of quarterly venture forums to facilitate deals between investors and entrepreneurs		√	√	√

Appendix C1

Development of a Dynamic Venture Capital Park in Jamaica⁶⁰

1.0 Introduction

A financing gap exists for most SMEs, compared with capital available for Corporate firms and Micro Businesses. Within the SME grouping, more capital is likely to go to the existing firms than to the start-ups. Moreover, most entities within this grouping do not by themselves have the administrative structure to undertake many of the developmental initiatives including capital-raising, in addition to their focus on creative and operational activities.

Hence, the build-out of a venture capital eco-system as envisaged under the JVCP should also explicitly recognize the need to have a supportive sub-system to improve the viability of startups and to provide a dynamic space to explore and develop new ideas from concept stage to prototype, with the assistance of technology as well as business support groups emanating from the University.

The Global Entrepreneurship Monitor (GEM)⁶¹ has identified nine Entrepreneurial Framework Conditions, that provide the basis for an ideal entrepreneurial environment. These are: Financing, Government Policies, Government Programmes, Education, Research and Development (R&D) Transfer, Commercial and Legal Infrastructure, Market Openness, Physical Infrastructure, and Cultural and Social Norms.

Jamaica, according to the GEM, ranks highly when compared with many other countries as it relates to the prevalence of entrepreneurial activities, with approximately 24% of all adults being involved in entrepreneurial activity. This level of activity reflects the low level of economic activity in the country because, although most of these entrepreneurs are ‘opportunity’ entrepreneurs, there is also a relatively high level of ‘necessity’ entrepreneurs.

There is a significant failure rate for entrepreneurs and startups. Many of those which do survive undergo limited growth and expansion. To have a sustained positive effect on economic growth and employment in the country, survival of these businesses must be improved and supportive infrastructure must be provided to ensure that the currently unfulfilled potential is realized in many productive areas and sectors, including those related to the production of tangible products and services, as well as intangibles in technology and our creative industries.

⁶⁰ Adapted from Development Bank of Jamaica and Planning Institute of Jamaica, “*Discussion Document: Development of a Dynamic Venture Capital Park*,” (Unpublished, October 14, 2011).

⁶¹ GEM, 2009. www.gemconsortium.org

Locally, the Scientific Research Council has not successfully transformed many of its research products into viable businesses, and the local Universities (UWI, UTECH, NCU) are also in need of a formalized structure to incubate and eventually commercialize viable research ideas.

In many countries, this supportive system is created within a dynamic venture-capital park, within which symbiotic relationships are created among the entrepreneurs, the business support services providers, the academic researchers and the providers of capital.

In most models, this actual physical space allows for the sharing and development of ideas, the nurturing and incubation of new businesses, and the mentoring and interaction with angel and venture capital investors.

With the development of the venture capital industry in Jamaica, it is recognized that over the medium to long term, the source of many new VC initiatives, and possibly the source of many businesses for which the country will have a competitive advantage, will emanate from having a space from which these ideas can be germinated, nurtured and grown to a level where they will attract seed capital and eventually qualify for follow-on funding and growth capital. Additionally, existing companies can realize their high growth potential through the access to new technologies and research.

2.0 Key Lessons from Selected Cases Studies

In assessing the feasibility of the creation of this entrepreneurship park, in Jamaica, successful models in other countries need to be examined, in order to understand the structure, the stakeholders and the key success factors.

One important lesson is that in many countries the venture capital investments tend to be concentrated in regional clusters and/or centres or parks, which can provide the supportive infrastructure. Examples of this include the YOZMA in Israel, the Ben Franklin Technology Centre in Pennsylvania. These centres provide access to capital, access to knowledge and access to expertise, in addition to the nurturing of an entrepreneurial culture.

The key advantage of these venture-capital centres is the establishment of networks and the establishment of relationships with angel investors, venture capitalists, financial institutions, governmental institutions and other partners to facilitate the needs of the investee companies and entrepreneurs.

With collaboration among universities and researchers, the best discoveries can be nurtured and developed for commercialization through the marketplace. Similarly existing technologies and products from overseas markets may be adapted and 'rolled out' into local, regional and global export markets.

The Ben Franklin Institute, through a number of centres across Pennsylvania, provides services to early stage/seed enterprises and entrepreneurs as well as established companies. The services provided include:

For Entrepreneurs, Early Stage, Start-ups:

Entities at this stage need business advice, technical assistance and capital. The entrepreneurial centres provide a network of support, business and technical expertise, access to incubators. Links are provided with angel investors, other sources of capital, including grant funding that eventually links to seed funding and venture capital.

For Established Companies:

Companies with promising growth prospects are provided with access to academia, technology and business experts to improve processes, adopt new technology and innovations, leading to improvement in competitiveness, capital structure and management and governance structures.

Other advantages noted by the Ben Franklin Institute include the linkages which are established with successful ‘alumni’ entrepreneurs who have benefited from the services and who can provide invaluable feedback based on actual experiences.

Additionally, in undertaking investments in venture funds, the presence of the Ben Franklin Institute as an investor, serves to attract other investors, as a result of its reputation for its due diligence ability and professionalism.

3.0 Towards the Development of a Jamaican Model

The Jamaican model envisages the creation of a dynamic venture capital sub-system – an Entrepreneurial Development Hub - comprising technology and research centres, linked to the University of Technology, University of the West Indies and other Universities throughout the island, as well as the Scientific Research Council, and providing support for entrepreneurs and start-up enterprises, through incubators, business service providers, mentors, angel investors and public-private sector seed capital funding available for support of new ideas and new ventures.

In keeping with the YOZMA and Ben Franklin Institute models, the Entrepreneurial Development Hub would achieve the following objectives:

- Development of a core of expertise, which creates the advantage of speed and efficiency through established linkages.
- Creating brand awareness and development of a network of angel investors, industry-insiders, lawyers, consultants, government agencies, press and academia.

- Develop formal and informal links to the technological academic institutions in Jamaica and other regions, particularly the Caribbean and the Americas.
- Develop working links with key international venture capital funds in order to access overseas capital and technical assistance for projects/businesses which are being established in international marketplaces.
- Develop links with Research Centres.
- Develop links with technology incubators.
- Develop links with corporate investors seeking new, emerging technologies.
- Develop links with key International Development Partners to partner in providing technical expertise and capital.
- Provide economies of scale thereby lowering transaction costs and improving access to funding.

This entrepreneurial hub will enable the developing local VC Industry to focus its resources and develop a core of expertise. The hub would facilitate access to public sector input and capital along with private capital in order to undertake investment in high risk start-ups and seed investments. The model provides an avenue for risk sharing between public and private investors, and even more importantly the supportive advisory and business development services.

As noted above, the local model would involve establishing linkages among academia, entrepreneurs, business support and research centres. Within the local environment, the Technology Innovation Centre (TIC) at the UTECH already has some of the basic elements of such a model, as it is an incubator for technology- based companies. Additionally, Entrepreneurial Chairs and Competitiveness Centres have been established at UTECH and UWI, respectively.

Business service providers exist but such services are fragmented and are mainly ‘stand-alone’ providers with limited expertise in other areas. Many of the services are also costly to start-ups and lack the expertise needed to identify and focus funding and advisory services.

4.0 Recommended Actions

In order to create the ‘entrepreneurial hub’ described above, the following sequence of actions is recommended:

1. As a first step, a study tour is to be conducted of the Ben Franklin Institute to understand the business model, the resources and the infrastructure required to develop such a system in Jamaica. The participants on this Study tour would include persons from PIOJ, DBJ, SRC and the Universities as well as a Private Sector representative.
2. In the second phase, a Consultant would be engaged to undertake a study of the TIC, other existing incubator facilities and the entrepreneurial centres at UTECH, UWI and NCU as well as the SRC, in order to assess their activities and to

identify the developmental requirements in order to fulfill the needs of high potential SMEs and entrepreneurs.

3. Third, long term funding partners would be identified in order to provide technical assistance and implementation of the 'hub' through the establishment of linkages among the stakeholder bodies. Long term funding from development partners as well as public and private sector sources would also be directed to the financing of seed and growth capital requirements of SMEs.

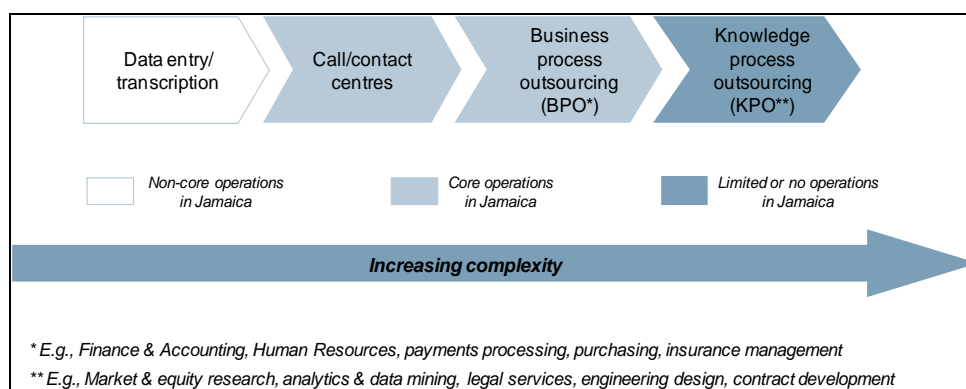
D

Business Process Outsourcing (BPO) Industry ⁶²

1.0 Background

Jamaica as an outsourcing destination is currently categorized by a concentration of call or contact centres and BPO activities. Approximately 26 firms, which have created some 9,500 jobs within the offshore industry, offer services ranging from finance & accounting functions, voice customer support to network operations support & debt collection. Figure D.1 graphically illustrates the range of services offered by the local industry.

Figure D.1 Structure of the Jamaican BPO Industry



2.0 Growth Trends

Data from JAMPRO show that while the industry has attracted capital investment of over US\$691 million and generated 10,871 jobs between 2006 and 2010, there have been no significant investments in the past five (5) years. This is juxtaposed against robust performance in the global BPO market over the last 10 years which is projected to continue over the next five years. The International Data Corporation (IDC) projects that the global BPO market will grow by 9% per annum and earnings will climb to just under US\$1 trillion by 2014. Offshore BPO is also expected to increase at a cumulative annual growth rate of 25% reaching US\$135 billion by 2014.

The Caribbean and Latin American market accounts for US\$2.5 billion of total revenue from the BPO industry, representing 5.8% of the total market share. This opportunity is expected to grow by some 20% per year and should therefore amount to US\$5 billion by

⁶² Prepared by JAMPRO.

2013. It must be noted that currently Jamaica represents approximately US\$145 million, a share of less than 1% of the regional market. Given the rapid growth trends in the region, Jamaica would have to grow by 25% per year in order to maintain its existing market share.

3.0 Current State of the Local Industry

Based on the nature of the industry, the BPO operators require a single storied building with an open floor plan to allow for optimal use of the work space. Additionally, the investors are interested in locations that are in close proximity to large pools of labour and preferably where there are several options for entertainment for both clients and staff ('plug & play' concept). It is based on these characteristics that Montego Bay and Kingston have become popular locations for the BPO operators – more so in the case of the former. It will be noted that the Montego Bay Free Zone is fully saturated. Portmore has emerged as a new and popular BPO location in the general Kingston area, as evidenced by location and planned expansion of the eServices/ACS centre in Naggo Head, Portmore.

The real estate developers have access to benefits under the Industrial Incentives (Factory Construction) Act, which can be applied to developers that construct factory shells for potential BPO investors. The construction costs can be offset by waiver of both GCT and customs duties under the Act. The recently amended Urban Renewal (Tax Relief) Act, where applied to the developers as they build out BPO-ready office space, would also provide significant benefits and incentivize investment in the industry. Specifically, income tax relief on bonds accruing to the investor could be extended to private developers in the BPO industry, as well as the elimination of transfer tax.

In general, it has been estimated that the construction of a fitted-out BPO office space amounts to approximately US\$150 per sq. ft. This sum is based on the average US\$75 per sq. ft. cost faced by the local developers and the additional US\$75 per sq. ft. to put in place the necessary A/C ducts, telecoms cabling and raised flooring.

4.0 Planned Developments in the Industry

The Factories Corporation of Jamaica's (FCJ) has recently committed to build 200,000 sq. ft. of space, of which 100,000 sq. ft. is located in Kingston⁶³ which represents the first phase of the project⁶⁴. Additionally, some 21 acres in Naggo Head in Portmore have been identified as another location of BPO development. The FCJ owned property has already received the necessary zoning permits and will be equipped with the 'main trunking' (e.g. water, sewage) in order to facilitate easy build out by the private sector. The Ministry of Industry, Investment & Commerce (MIIC) has also dedicated for use 40 acres of the 200 acres assigned to the Caymanas Economic Zone.

⁶³ Five acres of land at the Portmore Informatics site

⁶⁴ First phase is slated to be completed by the end of 2010

5.0 Recommendations

Based on the market research and consultations that were undertaken in 2009 and 2010 it was recommended that any incentive programme to be established must be focused on the build out of BPO space and the issuing of training grants – two main constraints to the further development of the industry. It is therefore recommended that:

1. Government offers a tax credit amounting to a flat sum of US\$1000 for each new employee hired to each BPO operator. As per Table 1 below, which outlines the growth in the industry and Government revenue based on the recommendation, within three (3) years, the industry would have cumulatively created 4000 new jobs, thus totalling 13,500 jobs for the economy and in 2015 some 10,200 new jobs and just under 20,000 jobs in total, all amounting to approximately US\$28.0 million in net new GoJ revenue.
2. The revised Urban Renewal (Tax Relief) Act is extended to developers for the BPO industry.

Table D.1. Preferred Incentives Package Option J\$M

Year	New Jobs	Total New GoJ Revenue	Flat Rate Tax Credit	Net New GoJ Revenue
2011	0	0.00	0.00	0.00
2012	2000.00	7,549,360.00	2,000,000.00	5,549,360.00
2013	2000.00	7,549,360.00	2,000,000.00	5,549,360.00
2014	2000.00	9,436,700.00	2,500,000.00	6,936,700.00
2015	2000.00	13,966,316.00	3,700,000.00	10,266,316.00
Total	10,200.00			28,301,736.00

Source: JAMPRO

E

Human Resources: Training and Certification ⁶⁵

1.0 Introduction

1.1 The Jamaican labour force continues to be characterized by low levels of training and certification; and unemployment continues to be a problem.

1.2 On the demand side of the labour market, the rate of unemployment remains high, with mounting job losses during the current recession. On the supply side, there exists significant weakness in the level of training and preparation for entry into the world of work among the early age cohorts. There is also a notable mismatch between supply of skilled labour and available jobs in segments of the labour market.

1.3 This note identifies the gaps in the education and training system as related to the labour market and offers some policy recommendations aimed to improve labour market outcomes in the short and medium term. The longer term problem of building up the human resource base starting from the earliest ages is not addressed.

2.0 Labour Demand and Supply

2.1 Table E.1 shows select labour-force indicators for the period January 2009 to July 2010.

2.2 Between January 2009 and July 2010 there was a point-to-point reduction of 28,900 persons in the employed labour force. Since the official start of the recession in October 2008, the employed labour force declined by 65,300 persons. In July 2010, the unemployment rate stood at 11.6 per cent. Employment losses were concentrated in the areas of Construction, Mining, Manufacturing, Education and the category of Private Households with Employed Persons. The diversity among these industries suggests the need for varying approaches in the effort to re-train displaced workers for adapting to emerging job opportunities.

2.3 The proportion of the labour force that is certified remained low and fairly stable over the period (an annual average of 20.1 per cent in 2009 and an average of 20.9 per cent in the first three quarters of 2010).

2.4 Table E.2 shows that the highest level of unemployment occurs among the age-group of 25 – 34, which are the prime working years.

⁶⁵ In consultation with the Human Development Unit, Social Policy Planning and Research Division, PIOJ.

2.5 Coexistent with the levels of unemployment is the fact that there are shortages of labour in various occupational and skill categories. A recent study⁶⁶ revealed that 69.0 per cent of organizations surveyed reported a shortage of skilled workers cutting across various occupation and industry groups. This suggests that there exists a gap in the training system that needs to be filled.

2.6 In 2008/09, total output from the terminal grades of the Secondary School system (Grades 9 and 11) was 55,694 students. Approximately 95.0 per cent of those leaving at Grades 9 were able to gain places to Grades 9 or Grade 10 of the upper cycle of the system, through the Grade Nine Achievement Test, the Junior High School Certificate Examination, Government's purchasing of places at private schools and through parents/guardians support for their enrolment at private institutions. However, approximately 54.8 per cent of graduates of the secondary school system were deemed ill-prepared to access training or the labour market⁶⁷.

2.7 The matriculation to tertiary institutions/labour market is five (5) CSEC subjects including English Language and Mathematics. Of the 32,568 students in public schools who sat the 2009 CSEC examination, 10,877 (33.4 percent) attained the requisite passes (Grades I-III) in five or more subjects including Mathematics and/or English Language.⁶⁸ Notably, 16.2 per cent of candidates in the June 2009 sitting did not pass any subject.

3.0 Current Programmes to Provide Training for the Labour Force

3.1 The Career Advancement Programme (CAP) is a youth career development initiative developed by the Ministry of Education and its agencies, including HEART Trust/NTA, National Youth Service and Jamaica Foundation of Life-long Learning. This programme is being implemented as part of the Compulsory Education Programme which would ensure that all children of ages 3-18 years are enrolled in and attending structured learning and training programmes. It provides new and expanded education and training for relevant career choices leading to NCTVET certification. Training in the Technical Vocational Education and Training (TVET) Specialization and work experience are provided. All students are required to do courses in Entrepreneurship, Personal Development, Career Development and core subjects like Mathematics and English. The programme currently targets 7,950 youth in 53 participating schools. The CAP includes a Parallel programme catering for youth 18 – 24 years providing similarly structured learning and training programmes in schools at flexible times.

3.2 Several other organizations provide access to skills training, including HEART Trust/NTA, the National Youth Service (NYS), and the Jamaica Business Development Corporation. Expanding the number of places available for skills training has been a focus of the Government in recent years. In FY 2008/09 for example, the HEART

⁶⁶ Ministry of Labour and Social Security, *Labour Demand Study Report*, 2010 (unpublished).

⁶⁷ Based on cohort of students gaining 0-3 passes at CSEC in 2006.

⁶⁸ Some 26.4 percent of the Grade 11 cohort (41, 428 students)

Trust/NTA established over 30 major partnerships, which resulted in the expansion of access to training nationally. Approximately 60,623 were trained in post-secondary education in the academic year 2008/09, an increase of 12.7 per cent over the previous year.

3.3 With regard to special education, the Special Education Curriculum was delivered to approximately 4,400 students. This was done through two types of programmes: Formal School-based Programmes and Home/Community-based Programmes.

4.0 Identified Gaps in the Education and Training System

4.1 In 2009, the number of trainees enrolled in HEART Trust/NTA programmes was 103,000 with 60,000 graduating. In the same year, 64,000 persons were enrolled in tertiary institutions, with 14,151 graduating. Despite this level of enrolment in such programmes, the data show that 80 per cent, or over 800,000 workers, are without certification. Of the first-time job seekers, 70.2 per cent have no vocational, technical or professional qualifications. About 20.1 per cent of Jamaican adults are illiterate. Another 15.0 per cent possess only basic numeracy skills. Some 142,000 youth are outside the education system and labour force, of which 5.0 per cent did not go beyond Grade 9⁶⁹.

4.2 In the 2008/09 academic year, the net enrolment rate (NER) for Grades 7-11 was 79.8 per cent. This figure can be further broken down into two categories, namely Grades 7-9 (which recorded a NER of 87.0 per cent) and Grades 10-11 (which recorded a NER of 68.4 per cent). This indicates that more work is needed to keep youth in school, especially at the upper school level of the secondary system. In the same year, only 64.7 per cent of the 234,557 subject entries in the CSEC examinations attained grades I – III, with approximately 16.2 per cent of students failing to attain the Grade III or higher in any subject.

4.3 Based on the details described above, the main identified gaps are in programmes geared to meet the following needs:

- 1) to re-engage and certify the large pool of potential high school drop-outs
- 2) to train and certify a large cohort of at-risk youth who are outside the labour force
- 3) to re-train a large pool of displaced workers mainly from the Construction, Mining, Manufacturing, and Agriculture industries.

5.0 Recommendations to close the Gaps

5.1 **Displaced Workers:** Institute programmes targeted to groups of displaced workers. A relevant example is the Sugar Area Development Plan for which GOJ receives European Union support to re-train and certify displaced workers in the sugar

⁶⁹ Fox, Kristin (2003). *Mapping Unattached Youth in Jamaica* (Draft), IADB.

industry as well as provide funding for small business development.

5.2 At-Risk Youth: Provide additional funding for the CAP to cater to youth 16-24 years old who are ill-prepared to access training or the labour market. Programmes to train and certify this group should be expanded and additional funding provided.

5.3 Training for careers in high-demand, skilled areas should be expanded, e.g. Caribbean Maritime Institute in seafaring skills; Portmore HEART Academy for construction skills; Advanced Information Communication Technology training at Caribbean Institute of Technology, Excelsior Community College⁷⁰ and Stony Hill HEART Academy; and in the Creative and Cultural Industry sector: GARMEX Academy (which is to be converted to a school catering to this sector), and Edna Manley College of Visual and Performing Arts.

5.4 Expand training in commercial skills and the entrepreneurial programme at HEART/NTA.

⁷⁰ The College currently runs the GOJ/GOI ICT Capacity Development Programme. This project will train 500 learners (400 at the basic level and 100 at the advanced level) in various levels of ICT.

Table E.1 Select Labour Force Indicators, 2009–2010

Indicator	2009				2010		
	January	April	July	October	January	April	July
TOTAL POPULATION	2,692,400	2,694,000	2,695,600	2,697,200	2,698,800	2,700,400	2,702,100
Population 14 years and over	1,996,800	1,998,000	1,999,200	2,000,400	2,001,600	2,002,800	2,004,100
Labour Force	1,280,600	1,267,900	1,272,800	1,257,900	1,261,600	1,242,000	1,255,000
Employed Labour Force	1,138,100	1,122,900	1,128,900	1,112,200	1,091,600	1,087,900	1,109,200
Unemployed Labour Force	142,500	145,100	143,900	145,700	169,900	154,100	145,900
Outside The Labour Force	716,200	730,100	726,400	742,500	740,000	760,800	749,100
Labour Force with Certification	259,800	263,600	245,000	253,600	256,800	261,100	266,800
Employment Rate	88.9	88.6	88.7	88.4	86.5	87.6	88.4
Unemployment Rate	11.1	11.4	11.3	11.6	13.5	12.4	11.6
Job Seeking Rate	6.5	7.4	7.8	7.2	8.6	7.7	6.9
Percentage of Population under 14 years	25.8	25.8	25.8	25.8	25.8	25.8	25.8
Percentage of Population age 14 years & over	74.2	74.2	74.2	74.2	74.2	74.2	74.2
Percentage of Population 14 + outside of labour force	35.9	36.5	36.3	37.1	37.0	38.0	37.4
Labour Force as % of Total Population	47.6	47.1	47.2	46.6	46.7	46.0	46.4
Labour Force as % of Population 14+	64.1	63.5	63.7	62.9	63.0	62.0	62.6

Note: Data for July 2010 are preliminary. Data for April, July & October 2009 are adjusted.
Source: Statistical Institute of Jamaica.

Table E.2. Unemployed Labour Force by Age, 2009-2010

Age Group	2009				2010		
	January	April	July	October	January	April	July
	BOTH SEXES						
14 - 19	15,600	15,300	14,200	14,700	15,200	12,500	12,800
20 - 24	29,200	28,400	33,700	35,700	34,900	39,000	34,700
25 - 34	48,800	51,500	45,800	43,600	56,800	47,100	47,200
35 - 44	29,600	30,000	31,700	31,900	40,700	34,700	31,700
45 - 54	11,800	12,300	12,900	13,200	15,300	13,700	12,700
55 - 64	5,000	4,900	4,200	4,600	4,700	5,900	5,600
65 and over	2,500	2,700	1,400	2,000	2,300	1,200	1,200
TOTAL	142,500	145,100	143,900	145,700	169,900	154,100	145,900
	MALE						
14 - 19	7,700	8,800	7,600	7,300	7,800	7,400	7,300
20 - 24	12,400	13,700	15,600	14,400	14,500	17,500	14,200
25 - 34	18,100	21,300	17,400	14,100	21,800	17,700	15,500
35 - 44	10,900	10,400	9,900	9,600	16,600	10,200	10,200
45 - 54	5,600	4,900	5,100	6,000	7,400	6,000	5,200
55 - 64	2,900	3,300	2,300	2,600	2,800	3,500	2,700
65 and over	1,700	1,700	900	1,700	1,400	800	700
TOTAL	59,300	64,100	58,800	55,700	72,300	63,100	55,800
	FEMALE						
14 - 19	7,900	6,500	6,600	7,400	7,400	5,100	5,500
20 - 24	16,800	14,700	18,100	21,300	20,400	21,500	20,500
25 - 34	30,700	30,200	28,400	29,500	35,000	29,400	31,700
35 - 44	18,700	19,600	21,800	22,300	24,100	24,500	21,500
45 - 54	6,200	7,400	7,800	7,200	7,900	7,700	7,500
55 - 64	2,100	1,600	1,900	2,000	1,900	2,400	2,900
65 and over	800	1,000	500	300	900	400	500
TOTAL	83,200	81,000	85,100	90,000	97,600	91,000	90,100

Note: Data for July 2010 are preliminary. Data for April, July and October 2009 are adjusted.

Source: Statistical Institute of Jamaica.

F

Strengthening Resilience of the Built and Natural Environment ⁷¹

1.0 Losses in Critical Infrastructure

1.1 One of the prerequisites for sustainable economic development is the robustness of a country's economy reflected in part by resilience to shocks of various types. In the case of Jamaica, a Small Island Developing State located in a multi-hazard zone, environmental shocks particularly in the form of hydro-meteorological events have continued to stymie the country's development efforts. On average, over the last decade, Jamaica has experienced at least one major hurricane or tropical storm annually. Since 1988, the cumulative impact of these events has been in the order of J\$105 billion, an average of 1-2% of GDP annually. It is estimated that by 2025, the cost of these natural hazards for Jamaica could be 13.9% of GDP (based on 2004 GDP).

1.2 According to the IDB Country Specific Risk Evaluation Catastrophe Risk Profile of Jamaica, completed in 2009, an estimated US\$19 billion of Jamaica's infrastructure assets (including buildings, road systems network, telecommunication, and power plants, dams etc.) are exposed to earthquake and wind hazards, of which US \$15.2 billion are in urban areas. This highlights the vulnerability of the built environment. Among the means of reducing the risk and associated vulnerability is to introduce appropriate policies and pursue environmental best practices.

1.3 Over the last decade Jamaica has been experiencing on average JA\$14 billion in losses. The most significant losses have been recorded in the areas of critical infrastructure. In fact roads, drains and bridges represent a major component of the damage. A close assessment may reveal that some of the infrastructure is replaced two to three times per year due to failure to observe high standards in the reconstruction phase. It is also important to note that much of the drainage and other government infrastructure is quite old and may be beyond the design life. Outside of the major gullies, the drains are now carrying debris and water flows that they were not designed to carry. Very little coastal protection is in place, resulting in severe damage to coastal roadways and damage to beaches and other coastal attractions.

1.4 These infrastructure and assets serve as interdependent networks or support these interdependent networks and provide access for the movement of products and people which are critical to the economic security of the country, as evidenced by the direct and

⁷¹ In consultation with the Division of Sustainable Development and Regional Planning, PIOJ, and the Office of Disaster Preparedness and Emergency Management (ODPEM).

indirect losses experienced when they are impacted during a disaster. In fact the Damage and Loss Assessment Report reflects a number of private and government productive sectors that are directly and indirectly affected when these pieces of infrastructure are affected. This is also listed as among the reasons why economic targets are missed annually.

1.5 While all these various pieces of infrastructure and assets are important on a national, regional and local scale, some are more important than others and must be looked at within the context of their risk exposure, vulnerability to natural hazards and value to the key economic sectors of the country. For example not every bridge is as important to the national economy, nor is every piece of roadway. What is certain is the trend identified after each disaster event and supported by each Damage and Loss Assessment Report, hence the need for hardening of key national assets and infrastructure so as to reduce the cost of recovery. In order to do so, Jamaica will have to develop a Strategy for the identification, prioritization, improvement and protection of key critical infrastructure and assets.

2.0 Recommended Interventions

2.1 Some possible interventions include:

- rebuilding and maintaining Farm Roads – short to long term
- drainage redesign and reconstruction – short to long term
- gully infrastructure repairs – short, medium, and long term
- bridge assessment (key roadways), maintenance and repair – short and medium term
- coastal/shoreline protection (critical for tourism investment) – medium to long term
- slope stabilization for key coffee and other export or domestic crops along corridors with unstable slopes – short to long term.

2.2 Table F.1 provides a detailed list of identified priority areas recommended to be targeted for comprehensive enhancement of the built and natural environment.⁷²

⁷² Submitted by the Office of Disaster Preparedness and Emergency Management (ODPEM).

Table F.1. Priority Areas for Comprehensive Enhancement of the Built Environment

Area	Type of intervention	Impact	Implication	Sector Impacted	Timeline
Infrastructure	Retrofitting/refurbishing of bridges Construction of new bridges <i>New works to include new standards to adapt to climate change</i>	Employment creation Upgraded stock of assets Improved safety Improved Community access (especially in rural farm communities) Improved market access	Labour intensive Foster livelihood Improved business continuity during hazard events Opportunity for PPP	Construction Transport and Communication Agriculture	Short – long term
	Refurbishing/repairs/expansion/maintenance of roads	As above+ improved travel time	As above	As above	Short – long term
	Refurbishing/repairs/expansion of gullies and drains	As above + reduced flooding	As above	As above	Short – long term
	River training Gabion baskets	Lessened downstream flooding Reduced losses in life and property Reduced time and cost of recovery Reduced run-off and scouring of roads Reduced damage to bridges Protection of livelihoods			Short – long term
	Sea Defence Construction and retrofitting of seawalls and construction of rip raps and groynes	Better protected coastal assets including sea and air ports, and roads Employment creation			Medium-long
Environmental	Ecosystems preservation (e.g. Mangrove restoration, reef conservation) Watershed rehabilitation Check dams	Protected coastal assets – ports (sea and air), roads, hotels Reduced flooding Reduced debris flow Marine habitat protected Wildlife habitat restored Expanded water resources; improved water quality Food availability	Protective services restored and enhanced Environment –related livelihood	Tourism Agriculture Transport Fisheries Commerce	Short-medium

Table F.1 (continued)

Area	Type of intervention	Impact	Implication	Sector Impacted	Timeline
Cultural heritage	Restoration of historical/cultural assets, buildings, monuments	Preservation of cultural heritage Employment creation	Culture and heritage as resources Renewal (geographic areas) Expansion of cultural awareness Psycho-social impact Investment opportunities for SMEs	All sectors	Medium-long
Public buildings/facilities	Retrofit and modernize building, (e.g. hospitals, schools, offices) Renovate and modernize municipal markets	Improved energy efficiency Lower energy bills Improved fixed assets Improved customer experience (display, safety) Expanded customer base at markets for vendors and farmers Less congestion on streets	Investment in renewable energy Lower maintenance cost for approximately 5 years	Government Construction Health Education	Medium-long
Housing development	Construction of low income/affordable housing	Employment creation Improved housing condition and upgraded housing stock Reduction in squatting Reduction in environmental degradation	Green construction Better planned communities Improved community security	Social sector All sectors	Medium-long
	Development of recreational facilities (parks, life centres, centres for performing arts etc)	Employment creation Healthy lifestyle promotion	Outlets for creativity Reduced cost for health care Increased productivity Social cohesion Reduced crime	All sectors	Medium-long

Table F.1 (continued)

Area	Type of intervention	Impact	Implication	Sector Impacted	Timeline
Energy	<p>Improve and expand energy infrastructure</p> <p>Expand renewable energy facilities (wind, hydro, energy from waste)</p> <p>Improve energy efficient buildings</p>	<p>Diversified energy systems and mix</p> <p>Reduced energy cost</p> <p>Improved energy efficiency and conservation</p> <p>Reduced energy intensity</p>	<p>Investment opportunities</p> <p>Country more attractive to investors</p> <p>Improved competitiveness</p>	All sectors	Medium-long
Land Use Planning	Growth models e.g. Smart growth	<p>More orderly development</p> <p>Energy-efficient land use – places of employment, commercial centres and residence in close proximity facilitating walking, biking, using public transportation</p>	<p>Relocation of some communities</p> <p>Infill development to increase density</p> <p>Increase use of public transportation</p> <p>Greater energy efficiency and conservation</p>	All sectors	Medium-long

Source: ODPEM

G

Community Renewal Programme (CRP)

1.0 Introduction

Over the last forty years, Jamaica has faced the seemingly intractable problem of violent crimes with the murder rate in 2009 recorded at 62/100,000 – among the top three countries worldwide. The events of May 2010 have clearly shown that fundamental and transformative changes are needed to address the entrenched problems of governance and social exclusion which are characteristic of many of the nation’s inner-city communities.

At the centre of the transformation lies the need for the re-assertion of the legitimate role of the state in these communities. This not only involves re-establishing the primary role of the state in security and justice at the level of communities, but also its important enabling roles in community empowerment and economic and social development.

Jamaica’s increasing violent crime rate has resulted from *inter alia*:

- link between gangs, youth and communities;
- alignment of gangs and communities with political parties;
- weakening influence of the state and rule of law;
- high unemployment rate;
- inadequate physical and technical capacity of law enforcement agencies; and
- lack of adequate physical infrastructure in several communities.

2.0 Community Renewal Programme

The CRP has been conceptualised on the premise that security, justice and community economic well-being are pre-requisites for the sustainable development of Jamaica’s communities and for the country as a whole. Further, all citizens regardless of socio-economic background must be free to make their own choices, take responsibility for their own actions and be afforded equal opportunities for self-development to make a meaningful contribution to nation building.

Goal: The goal of the CRP is to empower residents to achieve their fullest potential and contribute to the attainment of a secure, cohesive and just Jamaican society (in keeping with Goals 1 and 2 of *Vision 2030 Jamaica*). Vision 2030 identifies “gradual intervention in targeted communities that are most vulnerable and among population segments such as young males” (Outcome 5, Security and Safety, p. 106) as a major component of the long term solution. This is supported by National Strategy 5-1: Strengthen the capacity of communities to participate in creating a safe and secure

society. It also corresponds with recommendations contained in the National Crime Prevention and Community Safety Strategy (NCPCSS) and the recommendations of the JCF Strategic Review completed in 2008.

Purpose

The CRP provides a platform for the coordination and enhancement of the delivery of government and civil society services to volatile and vulnerable communities. The need for increased coordination and harmonisation is imperative. By establishing effective national and local coordination mechanisms, the CRP will help to strengthen governance and ensure that the sum of the wide range of different actions is greater than their parts. By avoiding duplication, and using an evidence-based approach to guide interventions, the CRP will seek to maximise the impact of existing programmes aimed at reducing crime and violence and promoting community development. The CRP is neither an implementing agency nor a funding body. It is a framework for increasing impact through working together.

The Programme will not replace existing initiatives being implemented. Instead, it will act as a vehicle to promote the harmonised and holistic approach to the implementation of interventions to avoid the sub-optimal use of human and financial resources. It will also seek to deepen the level of intervention to allow for more meaningful impact on communities and attract additional resources to expand the scope of interventions to a larger number of communities.

Objectives

Its objectives therefore are to:

- Strengthen legitimate and participatory governance.
- Promote the development of children and youth
- Increase safety and justice
- Improve socio-economic development
- Enhance social transformation
- Enable physical transformation.

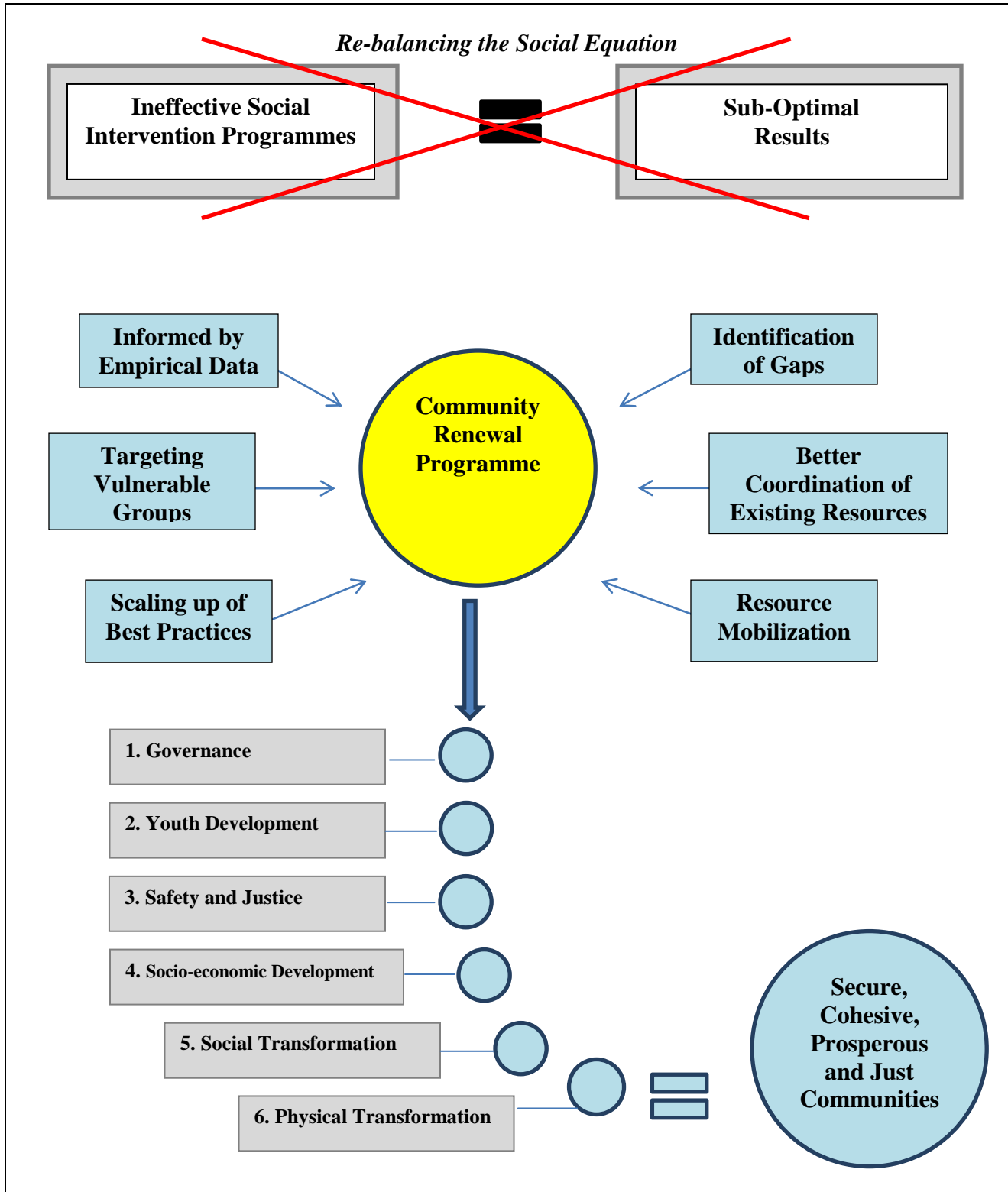
CRP Components

The CRP will consist of six components, as indicated in Figure G.1. The combined effect of these components is expected to lead to a decrease in violent crime and an improvement in the quality of life of residents of volatile and vulnerable communities

Approach

In order to maximise coordination and impact, the CRP will target 100 vulnerable and volatile communities in the five most crime-affected parishes (Kingston, St. Andrew, Clarendon, St. Catherine and St. James). A significant focus of the development work of the CRP in these communities will be targeted to help address community, family and individual risk factors of violent crime. This will necessitate a specific focus on at-risk children and youth (particularly young males) and their families who are the main victims and perpetrators of violent crime and among the most excluded of populations from mainstream society. The CRP has been mandated by Cabinet as the vehicle for taking forward the National Crime Prevention and Community Safety Strategy (NCPCSS).

Figure G.1 Community Renewal Programme (CRP)



Source: CRP Secretariat, PIOJ

3.0 Major Themes

This document is the result of the CRP development process to date. Its major themes are as follows:

1. Enhancing the impact of current violence reduction initiatives through greater coordination and harmonization of activities at the community level and more strategic deployment of available resources.
2. Scaling up of best practices based on lessons learnt.
3. Focusing on longer term sustainability of the programme and a “weaning” of community residents after its conclusion through the transformation of personal and community attributes and assets into productive activity, wealth creation and sustainable livelihoods.
4. Building of trust in the state through deeper, on-going engagement with communities and a formalization of community governance to promote legitimate community leadership.

4.0 Critical Success Factors

The CRP will seek to improve on previous initiatives by incorporating a focus on four important aspects:

1. Political transformation - breaking links between politics and ‘dons’, gangs and forms of organised crime and other criminal elements.
2. Strategic operational engagement by the security forces against criminal elements to complement social and economic interventions.
3. Unwavering prioritisation of and commitment to the programme by State and societal action with clearly designated political champions and strong Parliamentary oversight for accountability.
4. Steadfast linking of community outcomes with the economic, social well-being and justice goals outlined in *Vision 2030*.

5.0 Priority Actions

The CRP seeks to integrate and synchronise the efforts of government, civil society and private sector organisations in pursuit of common objectives. Partners have agreed to work together within a common framework towards the achievement of objectives that help to advance the goals of vision 2030. Priority initiatives agreed upon are indicated in Table G.1.

Table G.1 Priority Initiatives

Objective	Priority Initiatives	Implementation Partners
Strengthen legitimate and participatory governance	Establishing national governance structures to coordinate the delivery of services	Cabinet Office CRP Secretariat Office of the Prime Minister
	Increasing transparency and accountability in governance	(ECJ), CAFFEE, JCSC, NIAL, OCG, Political Parties
	Strengthening the community and parish development planning and implementation process	ALGA, DoLG, MNS, NAPDEC, NCO, NLA, SDC, STATIN
	Strengthening legitimate and participatory local governance structures and the relationship between them	ALGA, ICCF, NAPDEC, SDC
Increase Safety and Justice	Tackling serious crime	BWA, CSJP, DCS, ICJS, JCF, PMI
	Supporting effective community-based policing	JCF, MoJ, MNS, SDC
	Enhancing evidence-based crime prevention	JCF, JSIF, MNS, MoH, Mona Informatics, VPA
	Increase school safety	JCF, MoE, MNS, MoJ
	Increasing access to Justice	DCS, DRF, JFJ, Legal Aid Clinics, MoJ, VSU
Enhance Social Transformation	Increasing social inclusion and cohesion	CAB, CHASE, Insports, JCDC, MYSC, NTP, OPD, PSOJ, PSMP, SDC, Roots FM
	Fostering personal and community empowerment	CHASE, CDA, DRF, JCC, MoH, Fathers Inc. MoH, MYSC, NPC, PALS, PMI, RLMS, WROC
Improve Physical Development	Upgrading localised structures and formalising informal settlements	CSJP, FFTP, HAJ, JSIF, Local Authorities, MWH, NEPA, NHT, NLA, NSWMA, NWA, SDC
	Establishing and enhancing connecting infrastructure	JSIF, JPSCo, Local Authorities, MWH, NSWMA, NWA
	Developing public spaces	CSJP, JCF, JSIF, MYSC, MNS, NSWMA, NWA, SDC
Improve Socio-Economic Development	Improving employability	Aganar, CSJP, HEART-NTA, JBDC, JFLL, NYF, RLMS, YUTE
	Providing employment opportunities	CSJP, JCC, JEF, JAMPRO, JSIF, MIIC, MLSS, PSOJ
	Promoting entrepreneurship	DBJ, JMA, JAMPRO, JYBT, MIIC, UTECH, UWI
Promote the development of Children and Youth	Promoting prioritisation of youth within CRP interventions	ICCF, JCF, JSIF, PMI, PSOJ, NYS, SDC, UWI, YUTE
	Supporting programmes for children and youths in need of care and protection	CDA, CISOCA, CF, HTCC, JASW, JCC, JCF, MoH, OCR, WFOJ, VSU
	Facilitating programmes for prevention of teenage pregnancy and support to teenage parents	JASWA, JCC, MoE, RISE, WFOJ, WMC, WROC,
	Supporting high-risk youth initiatives	CDA, CSJP, DCS, MoE, NYS, PMI, VPA
	Promotion of youths as assets in the development process	EMC, NCYD, NYOJ, OPM, SDC

6.0 Partnership Framework

Governance Structures

The strategic implementation of the CRP will be overseen by an Inter-Ministerial Crime Prevention and Community Renewal Committee, chaired by the Prime Minister, with representation from the main opposition party and civil society. This committee will meet on a quarterly basis and will also oversee the implementation of the NCPCSS. The main engine of the CRP will be a National Working Group comprised of Permanent Secretaries, Heads of Agencies, and civil society representatives. Technical Working Groups focused on the six pillars of the programme will meet on a periodic basis to coordinate work in priority sectors and to review progress. Parish Working Groups, led by the local Mayors, will be established in the five target parishes to coordinate local implementation.

Memorandum of Understanding

The CRP will be implemented through the work of a wide range of partner agencies. All CRP partners are asked to sign a memorandum of understanding which will include a statement of principles in which they agree to, *inter alia*:

- Participate in national and local coordination frameworks
- Use data to inform the targeting of interventions
- Target support to address locally-agreed priorities
- Synchronise activities in target communities
- Regularly review activities vis-à-vis CRP objectives
- Prioritise youth, and specifically at-risk youth, as a focal point for interventions

Role of the CRP Secretariat

A small team has been established within PIOJ which will be responsible for the day-to-day coordination of the CRP. The role of the secretariat is to:

- Act as the secretariat for the national governance structures and support the development of parish coordinating structures
- Map which agencies are delivering programmes where, and identify gaps and overlaps
- Help partners to define clear roles and responsibilities to eliminate overlaps
- Work with partners to mobilise resources to help fill gaps

7. Implementation Plan

The CRP seeks to bring about long-term transformation in the 100 communities over a 10-year period. Implementation will be phased (as indicated in Table A6.2), focusing on clusters of communities in order to build bridges between neighbouring areas.

Table G.2 Phased Implementation Plan

Phase	Area/Parish	Proposed Implementation Date
1	Kingston and St. Andrew St. James St. Catherine	October 2011
2	Kingston and St. Andrew St. James St. Catherine Clarendon	January 2013
3	St. Catherine Clarendon St. James	January 2014

8.0 Monitoring and Evaluation

One of the defining features of the CRP is its evidence-based approach. The monitoring and evaluation system is as simple as possible to be effective, whilst capturing the multi-faceted nature of the CRP. A combination of three different types of indicators will be assessed, using a mix of quantitative and qualitative information, to track progress against the programme's goal, purpose and objectives:

- ***Community-level outcome indicators:*** these track the societal impact that the CRP intends to have. A key focus here is on tracking progress against the criteria used to select the top 100 volatile and vulnerable communities, as well as assessing the satisfaction of residents with the delivery of government services.
- ***Individual-level outcome indicators:*** these track the impact that programme interventions have on target individuals. For example, the number of participants in a vocational training programme who had found employment six months afterwards, or changes in the propensity of an at-risk youth to use violence after he has been through a rehabilitation programme.
- ***Process indicators:*** these track project outputs that can be expected to give a good indication as to whether the CRP is on track to meet its objectives. For example: the completion of partnership agreements between participating MDAs; community development plans completed based on participatory identification of local needs, monthly meetings of CDCs in target communities attended by a cross-section of citizens.

9.0 Priority Actions

Priority areas targeted for action are indicated in Table G.3.

Table G.3 CRP: Action Plan

CRP Components	Lead Programme/Agency
1. Establish CRP Secretariat	PIOJ
2. Conduct assessment of existing programmes/projects/agencies working in the target community/area and identify gaps.	CRP Secretariat
3. Develop and establish coordinating framework to ensure harmonisation of on-going and new projects in the community.	CRP Secretariat
4. Establish a strategic alliance with existing programmes/projects e.g. JDIP for physical infrastructure projects.	CRP Secretariat
5. Finalise list of communities for intervention.	CRP Secretariat in conjunction with PIOJ & MNS
6. Governance a. Review and update Political Code of Conduct in consultation with the political directorate. b. Develop and establish governance framework for citizen inclusion in decision-making and practice.	SDC, CRP Secretariat
7. Safety and Justice Development and implementation of appropriate community safety mechanisms.	MNS, JCF
8. Social Transformation Design and implement national and community level social transformation programme.	CRP Secretariat , NTP, PMI
9. Socio-Economic Initiatives a. Identify income generating activities, including establishing business incubator and micro-lending facility. b. Develop and implement cross-functional programmes that provide training, employment and physical infrastructure development e.g. community parks and sanitation facilities.	CSJP, JBDC, SDC
10. Sustainable Physical Transformation. Identify sites for and develop/construct beautification areas, healthy life zones and sanitation facilities.	JSIF, CSJP, MWH, UDC, NHT, MoH
11. Youth Development a. Assessment of youth population with an emphasis on identifying high-risk youth. b. Design and delivery of youth development programmes including skills training, income generation, mediation, life skills, psycho-social interventions, etc.	MYSC, CSJP, PMI, MoH

10.0 Programme Budget: The CRP will be funded through a mix of sources i.e. Government of Jamaica (GOJ), International Development Partners (IDPs), the Private Sector (PS) as well as Diaspora and Charitable Funds.

H

Proposed West Kingston Commercial Lifestyles Centre A Concept Note

This Concept Note was motivated by a request from some business leaders in the PSOJ to assist with developing a commercial product that could serve as a consilient point and catalyst for the redevelopment of Downtown Kingston.

1.0 Introduction

The West Kingston Commercial Lifestyles Centre (*Kingston Lifestyles*) is conceptualized as a strategically located, ring-fenced and secure, 9.7 acres commercially valuable and Community-valued business project in Downtown Kingston. The proposed location is adjacent to the Coronation Market (*Curry*) and the bustling nearby commercial district on Princess Street. Its location at the heart of the 50 commercially underserved residential communities of 254,588 residents within a 5KM radius gives it the promise of becoming the fulcrum of the modern and cosmopolitan renewal and re-development of the entire Downtown Kingston.

Kingston Lifestyles market brand would be based on a strategic clustering of the economic, cultural, historical, social and geographical assets, and business opportunities, that competitively advantage Downtown Kingston as a commercial zone. This market brand would be strengthened by the systematic and institutional abating and neutralizing of the environmental risks (for example, crime, criminality and social disorder) that make Downtown commercial life unsafe and undesirable. *Kingston Lifestyles* would also represent a unique place identity of a modern and cosmopolitan space where shoppers and visitors can experience their aspirational desires such as connecting to the global space –technology hot spot, food court, small theatre for movies, etc.

The social and economic architecture of this strategic clustering and risk management would include all stakeholders such as area residents, merchants and visitors - developing and valuing, and hence commoditizing a connection to the Centre. This should make them suspend, if not abandon their more narrow enclave social-political and economic, as well as class identities, in favour of the more modern, hip and inclusive globalized cosmopolitan *place identity* of the Centre. This constructed *place identity* is the social and public capital glue that bonds together the component parts of the cluster into a marketable and commoditized single identity –*The Hip Place in the heart of Downtown Kingston*.

2.0 Potential Core Features of the Centre

A business concept based on the clustering of related and complementary commercial activities with cultural and social products and a unique-brand place-identity:

- A major Community Policing Station that conveys a secured environment, coupled with humanness and kindness, that is socially “architected” as the emotional gateway of the Centre and path to its desirable and unique place- identity experience
- Financial, banking and business services targeting MSME clients and residents
- Food Court with Jamaican and international culinary variety
- Movie theatre that doubles as performance stage, lecture hall and staging place for live taping of local production
- Telecommunication network technology “hot zone”. This would commoditize consumers’ access to the globalized world and relationships with others that are more diverse and widespread
- Superette with Pharmacy (10,000 square feet) designed for grocery carry-by-walk, route-taxi and public transport
- Extensive green social space which includes a therapeutic water display and a dinner-theatre amphitheatre
- Commoditizing of social and cultural activities and spaces as part of the brand. This could include a Town Hall space for democratic engagement and discourse on civil society issues which would double as community meeting spaces during school hours and tutorial, mentoring (UWI, UTech, for e.g.) and study spaces during designated afternoon/evening and weekends.

The clustering of these assets into an exclusive entity that offers a distinctive urban, cosmopolitan, commercial experience, and one whose economic investment offers sustained competitive returns, would be catalytic in the Downtown re-development effort. It could conciliate the Downtown renewal efforts, by creating an example of mobilizing capital to awaken and cultivate the latent and un-organized economic assets of Downtown Kingston. It could also become a portable model for exploiting opportunities in the urban centres of Portmore and Montego Bay.

3.0 Transparency Guarantees

By design, *Kingston Lifestyles* will have clearly delineated and enforceable property-rights and transparency guarantees governing State demands, responsibilities and limits, the behaviour and responsibilities of private capital and enterprise, and residents and shoppers.

Of note, because of the collective consumption and production nature of these critical public and social capital infrastructures, the ring-fencing and exclusivity of our clusters is an essential element in the proposed entity's ability to assign and enforce property-rights and ensure transparency guarantees. This is how it bounds and protects its product.

4.0 Summary

Modern economic thought appreciates that sustainable market economy must value and cultivate the social and public capital of expanding the capacity and freedoms of all citizens to participate meaningfully in dignified market exchange and transactions. This creates a basic liberty that people have reason to value and protect, and fills a basic role in social living. When strategically clustered with complementary and related commercial activities, it can be transformed into a commodity that is highly valued and preserved and offers competitive returns on investment. This is the essence of *Kingston Lifestyles*, which offers potential investors the unique opportunity of being profitable while contributing to community empowerment. This should act as a catalyst to the important renewal and re-development of downtown Kingston.

I

A Viable Framework for Poverty Reduction ⁷³

Summary

- In both advanced and developing economies, the phenomenon of poverty has much of its genesis and reproduction in structural factors. These factors range from urban and rural disparities in economic opportunities and resources, and population dynamics, to inequities in access to and availability of information, goods and services, limited social infrastructure, and fragmented and unequal economic power bases. The results include a cycle of systemic poverty passed from one generation to the next, perpetuated by imbalances in the distribution of wealth and income, and an inability to effect sustained changes in the quality of life. Addressing this multi-dimensional issue requires a structured, multi-pronged approach.
- In Jamaica, social factors combine with the economic to create a stubborn set of dynamics governing poverty. Real growth in the economy is a prerequisite for sustained economic progress and poverty reduction. However, if such growth is not inclusive, the most needy citizens may not experience it. Jamaica's experience during the decades of the 1990s and 2000s shows a trend of declining poverty rates even in a context of sluggish economic performance. This was due, in part, to the extensive social programmes put in place as safety net responses as well as to the role of foreign remittances. For growth to be inclusive, it must be complemented with a deliberate programme of initiatives, coordinated to tackle the most serious effects of the structural factors governing poverty. These structural factors will not automatically correct themselves.
- This Note outlines and seeks to justify the establishment of a National Poverty Reduction Coordinating Unit (NPRCU) as a distinct focal point for coordination of a national poverty reduction policy and programme for Jamaica, in keeping with the goals of economic growth and long-term development laid out in *Vision 2030 Jamaica*.

1.0 Background and Context

1.1 Following on its commitment to eradicate absolute poverty, the Government of Jamaica in 1996 initiated the development of a National Poverty Eradication Programme (NPEP), supported by a National Policy. The Programme Monitoring

⁷³ In consultation with the Social Protection and Gender Unit, Social Policy Planning and Research Division, PIOJ.

and Coordinating Unit (PCMU) was established in the Office of the Prime Minister as the focal point for the institutional framework of the programme.

- 1.2 The major focus of the poverty eradication efforts was on community development, and the broadening of access to basic social services. Under the NPEP, several projects including water and sanitation, rural electrification, skills building and others were to be implemented in some 66 targeted communities islandwide, over a five-year period.
- 1.3 The NPEP has been a guiding framework for much of the poverty initiatives up to recent years, even after the end of the initial project period. However, the PCMU is no longer functional, and was impacted by several challenges over its tenure. These included: lack of autonomy, little budget control, and inadequate human resource capacity. The institutional framework established for the NPEP has also been assessed as cumbersome, difficult to implement, and consisting of too many layers of agency responsibility. A mechanism of accountability for poverty results was also missing, as well as an effective line relationship with implementing ministries and agencies.
- 1.4 Current poverty reduction efforts of GOJ are not being adequately coordinated. The institutional arrangements originally approved by Cabinet in Ministry Paper #13/97 no longer exist in practice. Despite the perceived impact of various programmes and initiatives, there still remains an intractable level of poverty, particularly rural poverty, which requires the singular focus of a designated body to make further progress in sustained reduction of poverty. In addition, recent increases in poverty rates documented by PIOJ reinforce the need for maintaining a viable institutional focal point for programme coordination, monitoring and evaluation.

2.0 Vision 2030 Jamaica

- 2.1 *Vision 2030 Jamaica* has enunciated a set of strategies for poverty reduction in the *Poverty Reduction Sector Plan*. The Plan recognizes that a necessary requirement for effective implementation is a single locus of institutional responsibility, under an assigned Minister, along with improved mechanisms and instruments for monitoring and measuring poverty. Major strategic objectives outlined in the plan are: equitable access to basic goods and services, responsive public policy, opportunities for sustainable livelihoods, and social inclusion. These entail a major focus on families, rural development, human capital formation through education and empowerment, provision of economic opportunities for poor households and vulnerable persons, and vigorous attention to community development and infrastructure.
- 2.2 Despite recognition of these necessary conditions, the issue of poverty reduction is still lacking a portfolio Ministry or agency that will undertake responsibility and accountability to coordinate and monitor an integrated, multi-sectoral programme.

3.0 Current Poverty Reduction Initiatives

- 3.1 Current poverty programmes in Jamaica span a wide range of interventions, from construction of community infrastructure such as roads and schools, water and sanitation projects, rural electrification, and skills building, to cash transfers, residential care and employment programmes. In addition, there are education, training and apprenticeship programmes, as well as nutrition support. Altogether, millions of dollars of resources are now being spent on poverty programmes of various kinds.
- 3.2 However, Jamaica will not reap positive and sustainable outcomes, if programmes remain fragmented and there is inadequate provision for measuring programme effects. Across Ministries, agencies, and even NGOs (inclusive of donor/lender facilitated projects), ad hoc, well intentioned initiatives are currently giving rise to duplication of efforts, wastage of resources, poorly designed projects, and detached and fragmented programme approaches. This is not due to a dearth of information and data but to a less than productive use of the available information. There is also limited accountability for results of these efforts, owing to lack of an institutional focus, monitoring of impacts, and assessment of outcomes. Best practices require a more structured approach with proper coordination and monitoring. Such coordination would support the work of various Ministries and agencies involved in a wide range of strategic interventions, without negatively affecting the immediate roles and responsibilities of each agency.
- 3.3 *Vision 2030 Jamaica* is now the overarching framework for social policy interventions going forward. Accordingly, a restructured poverty programme now needs to be drafted, which builds on the merits of the previous policy and programme and on best practices gleaned from experience here and elsewhere. As a matter of immediate relevance, the Community Renewal Programme, currently being developed and led by the PIOJ, aims to address priority social issues that negatively affect some 100 vulnerable communities islandwide. This programme could be one of the major new initiatives operating under the umbrella of a restructured poverty programme.

4.0 Responsibility Framework

- 4.1 An appropriate framework would involve assignment of responsibility for co-ordination to a single institution, the NPCRU, with well designed mechanisms for monitoring poverty.
- As its charter, this Unit would have policy and programme documents that embody the tenets of the long-term Development Plan.
 - The Unit would be able to balance the allocation of available resources between short term or immediate measures and longer term approaches according to the relevant plan and policy, in keeping with the medium-term economic and social framework (MTF) and in line with the GOJ's budget process. The Unit would

- therefore need to have sanctioned opportunities to influence the budget process in accordance with stated priority programme areas.
- Though the Unit requires authority for coordination and oversight, this should not detract from the mandate and responsibility of the various agencies whose programmes would form part of the mix of initiatives for poverty reduction.
 - The Unit would be the first port of call for any assessment of poverty programmes in Jamaica.
 - As a coordinating body, the Unit would be well placed to sift through and disseminate information, provide structured and streamlined objective approaches to interventions, monitor overall reach of services and initiatives, and bring a more unified perspective to bear on national efforts.

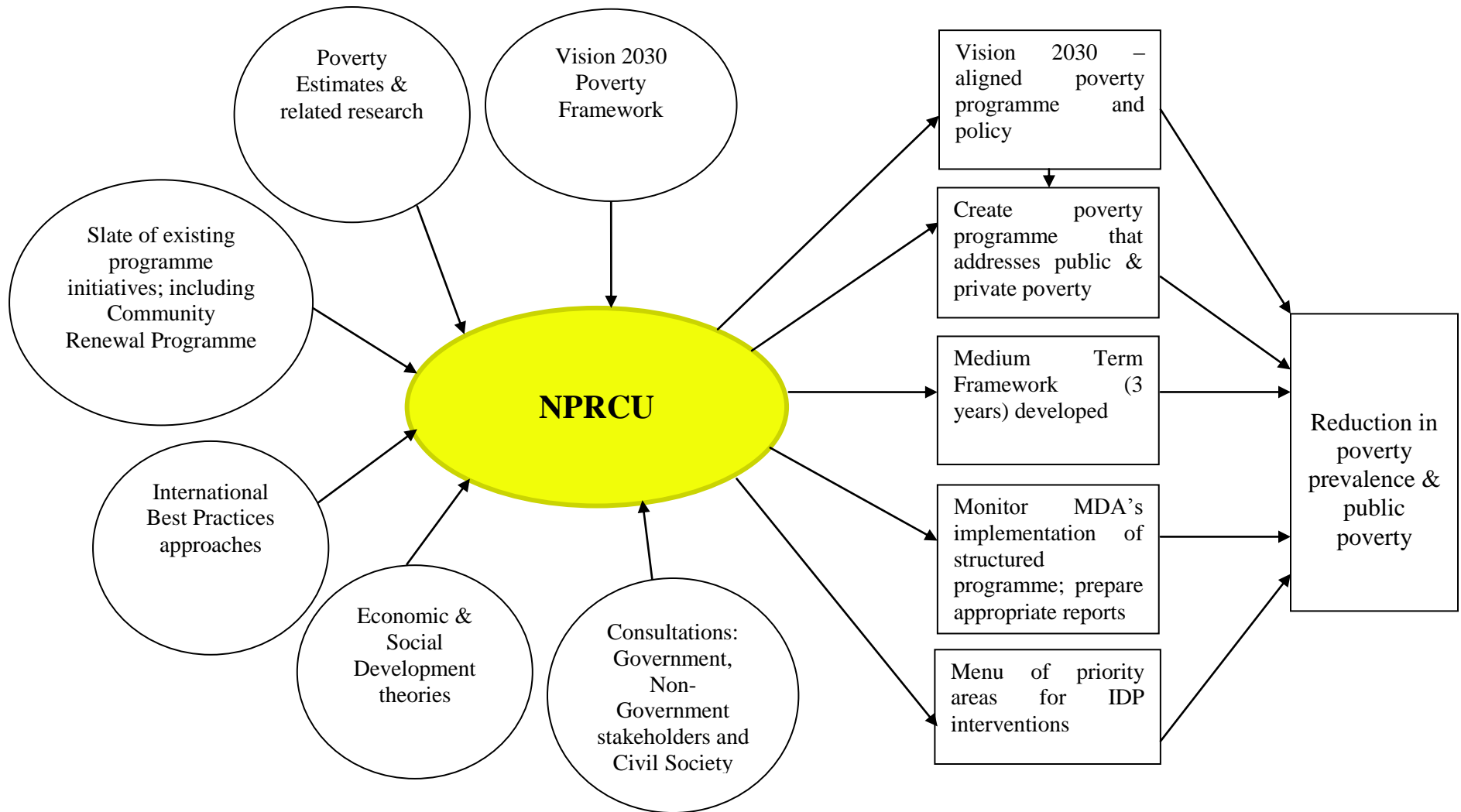
4.2 This Unit would be mandated to pull together the various strands of the social development support system, and to encourage synergies and integration with the economic development sphere. Applying the needed multi-faceted approach to poverty reduction will require linking programmes and initiatives, pulling on technical support through an inter-sectoral planning and monitoring mechanism. Non-government organizations (NGOs) have played a highly significant role in poverty reduction in the Jamaican context, and these organizations could likewise become more effective through a shared agenda of purpose and priorities.

5.0 Recommendations

- a. Government is asked to assign the portfolio of poverty reduction and mitigation to a single named Ministry or agency.
- b. A National Poverty Reduction Coordinating Unit (NPRCU) is to be established within the approved entity, with a mandate to revise the National Poverty Eradication Policy and Programme, consistent with *Vision 2030 Jamaica*. The Unit would provide technical direction and secretariat services, with an accompanying collaborative, inter-agency mechanism for programme monitoring and evaluation.
- c. The Planning Institute of Jamaica (PIOJ) is ideally placed to locate the NPRCU:
 - Apart from being removed from the immediate implementation of activities, the PIOJ has access to several levels of data, information, and interaction that allows it a broad view of the critical issues involved in poverty reduction.
 - As the national planning agency, it can bring economic, environmental and social development theories to bear on critical aspects of poverty reduction, addressing the key elements of income, inflation and inequality which are some of the major factors that influence economic well-being of the poor. It could, therefore, create an organic linkage between conduct of the poverty programme, analysis and measurement of its outcomes, and assessment of accountability.

- The PIOJ brokers international development partners' involvement in many of the relevant areas, and has the opportunity to influence official development assistance in meaningful ways that support the poverty agenda.
 - The monitoring and evaluation of the *Vision 2030 Jamaica – National Development Plan* are spearheaded by the PIOJ. To its merit, the PIOJ has maintained sound working relationships with sector Ministries, departments and agencies, with strong inter-agency collaboration across the range of its outputs.
 - Additionally, the PIOJ's planning horizon is far more flexible, and can therefore bring a greater degree of consistency to the critical coordinating role across time.
- d. The Unit should be given a clear mandate that is known and respected by all MDAs, and should become the central hub of information on aspects of poverty intervention, with which all partners would interact for broad assessment and evaluation.
 - e. The Unit would provide annual and ad hoc reports on the status of the poverty programme, including analysis of longitudinal and current data on prevalence of poverty and the effectiveness of the programme in influencing observed outcomes.
 - f. International Development Partners could be approached to support the start-up of the Unit for an initial period (e.g. two years). During this period, the Unit would oversee the development of a revised poverty reduction policy and programme, support a pertinent consultative process, establish priorities and action plans in keeping with timelines for the Medium Term Socio-Economic Policy Framework, and begin a phased implementation of strategy and plan for poverty reduction.

Figure I.1. Functions of National Poverty Reduction Co-ordinating Unit (NPRCU)



Public Sector Transformation⁷⁴

1.0 Background

Cabinet Decision #49/09, dated November 2, 2009, stated the decision of Cabinet to rationalize the Public Sector. The vision to be realised is “*a transformed cohesive Public Sector that is performance-based, efficient, cost effective and service oriented.*” The stated reasons for rationalisation are as follows:

- overlapping and duplication of mandates and functions
- organizations and structures that are no longer relevant
- shifts in mandate and core functions
- archaic systems and structures
- outdated Statutes
- high wage bill relative to GDP
- lack of appropriate technology
- lack of inter and intra-Ministry collaboration
- limited financial and material resources.

2.0 The Context

The Public Sector Master Rationalization Plan addresses the rationalization of the Public Sector at the strategic level and examines Ministries and their respective Departments and Agencies, in relation to their mandates and core functions. Careful consideration was given to the role, core functions and priorities of Government. The determination of the core functions of Government was informed by an understanding of “what Government should do and pay for; what government must pay for, but does not have to do; and what Government should not do and should not pay for”⁷⁵. This philosophy guided the review of the functions of Ministries, Departments and Agencies and their status was determined based on, one of six options, namely:

1. retention
2. transfer
3. merger
4. abolition
5. divestment/privatisation
6. contracting out.

⁷⁴ Prepared by the Public Sector Transformation Unit, Cabinet Office.

⁷⁵ Osborne, David and Plastrik, Peter, *Banishing Bureaucracy: The Five Strategies for Reinventing Government*, First Plume Printing, USA, 1997.

The rationalisation was guided by the imperative for a Jamaican Public Sector that is service oriented, results-based and guided by appropriate accountability mechanisms and which, therefore, provides an enabling environment for the achievement of the Vision 2030 goal: “*Jamaica the place of choice to live, work, raise families and do business*”.

3.0 Treatment of Reduction of the Ratio of Public Sector Wage Bill to GDP

The Government has committed to the International Monetary Fund (IMF) that it will reduce the size of the public sector wage bill from 11.75 per cent of GDP to 9.5 per cent of GDP by 2013/2014. The size of the wage bill, which is estimated to cost the Government \$126 billion this fiscal year, will be maintained over the next two years. The Government hopes to cap the wage bill at \$150 billion in 2013/2014, or 19 per cent higher than at the commencement of the programme.

It should be pointed out that realization of the anticipated reduction will be obtained not only through the rationalization of the Ministries, Departments and Agencies (MDAs), but also through improved efficiency and increased productivity which will impact on GDP. Moreover, there are other critical areas within the public sector reconstruction that could impact significantly on the public sector wage bill. These include pension reform, leave reform and compensation reform which should have real impact on the realization of these targets.

4.0 Proposed Transformation Initiatives

4.1 Strengthening of Institutions promoting Economic Growth

A critical component of the public sector transformation is strengthening those institutions that play a vital role in promoting economic growth. Chief among them would be the Ministry of Industry, Investment and Commerce and the Jamaica Business Development Centre, the leading local agency charged with the responsibility of facilitating the development of Micro, Small and Medium-sized Enterprises (MSMEs) to enable them to establish sustainable businesses.

Those entities that impact directly on investments are also targeted for institutional strengthening. They include the National Environment and Planning Agency (NEPA), the National Land Agency (NLA) and other related entities that play an integral role in the Development Approval Process. Among the issues to be reviewed within these entities are: the business processes and the technology necessary to enhance the operational framework for greater productivity.

Science and Technology, Research and Development, play a critical role in enhancing a country’s growth and development. Modalities for translating development goals into outputs using research and scientific endeavours are lacking or not clearly defined. At present the research and technology activities in the country are highly fragmented, with good research taking place in pockets, but seemingly not translating into action through

new jobs, new products and services or improved efficiencies. A consolidated approach to Science and Technology, Research and Development will have a major impact on advancing Jamaica's economic progress.

5.0 Systemic Areas for Transformation

There are various areas of operation across the public sector that could achieve greater efficiencies and cost effectiveness with the introduction of new approaches to governance, reengineering of business processes, modification to existing structures and a pragmatic approach to human resource management within the public sector.

6.0 Human Resource Management Issues under Review

6.1 Pension Reforms

The current cost for public sector pension is approximately \$14.2 billion for the period 2009/2010 and a projected \$25 billion for 2010/2011. As the public sector population increases in size for retirement, the escalating cost to government is untenable and unsustainable. The urgency to implement a defined contribution system is obvious, if we are to stem the trajectory on which the pension costs is now proceeding. There is an urgent need to establish the provisions within the Public Sector that will provide for new recruits entering the system, to be participants in a Defined Contributory Pension Scheme that would alleviate the stress on resources in the medium and long term.

6.2 Leave Entitlements

The Leave entitlements for new entrants to the Public Sector should be stated as 15 days vacation leave, three days casual (departmental) leave and ten days sick leave. The treatment of leave entitlements generally, must be negotiated with the Unions and an acceptable mechanism identified on how outstanding leave is to be treated. Bearing in mind the cost implications, this should be treated as a matter of urgency.

6.3 Compensation Policy Review

The success of a true transformation of the Public Sector relies significantly on the treatment of the Sector's human resources. At the heart of this effort, is the issue of how people are compensated and rewarded. It is therefore necessary that an effective compensation policy be determined which directs the manner in which people are attracted, paid and rewarded. A comprehensive review of the current compensation policy and practices is therefore recommended.

7.0 Shared Corporate Services

Shared Corporate Services constitute 'back office' operations that are central to the operations of all Ministries, Departments and Agencies of government, which are handled centrally to allow for the individual entities to focus on their core functions. Inherent in the model is the purchasing of services from a central group, obliged to

deliver services in an efficient and effective manner, resulting in a dramatic reduction in the cost of such operations government-wide.

This model, applied to the public sector, is in complete symmetry with the business-network model recommended in the Growth-Inducement Strategy as an effective mechanism for reducing transaction costs and realizing economies of scale in private sector businesses.

The Shared Corporate Service model involves the consolidation of administrative and support functions in eight areas, namely: Financial Management, Human Resource Management, Legal Services, Internal Audit, Procurement, Asset Management, Information and Communication Technology, Communications and Public Relations. The functions will be undertaken in discrete Service Centres whose primary mission is to provide specific services in an efficient and effective manner. Service Level Agreements would be put in place to ensure that the Shared Corporate Service provider is held accountable for the delivery of high quality service within stated timeframes.

8.0 Devolution of Authority

Devolution of Authority refers to the transfer of powers from Central Government to local entities, thus aligning responsibility with authority and accountability at the point of delivery of services. It involves the local entities having full autonomy for overall management of their operations, human resources and financial matters. With this authority, there must exist a strict accountability framework that holds the Head of the entity responsible and accountable for all outputs, qualitative and quantitative. This governance arrangement will place these entities in a better position to manage their resources in order to deliver better service to the public and to be held accountable for the results achieved. Twelve entities have been identified as pilots for this new governance modality.

9.0 Standardization of Administrative Regions

Various Ministries have different geographical boundaries, ranging from two to seven regions, as administrative zones across the island. This lack of standardization has serious implications for proper management, effective social intervention and efficient use of limited resources, both human and material. Information presented by various government entities is collated using their own geographical boundaries, which makes it difficult to plan and to analyze the impact of inter-sectoral interventions. The purpose of standardizing the regions is to facilitate multi-agency synchronization/coordination of data to common geographic areas, both at the strategic level (national) and at the local level (community or neighbourhood scale), so as to inform planning and decision making. It is important that, sectorally, there is careful alignment to ensure greater efficacy in the collection, collation, analysis and reporting of data and appropriate deployment of human, financial and material resources.

10.0 Government of Jamaica Network Infrastructure (GOVNET)

GovNet is envisioned as a government-wide communications network for the seamless transfer of information between government agencies and other stakeholders and for the provision of on-line services to the public at minimal cost. It will facilitate the harmonization of ICT infrastructure and systems across the Public Sector, thereby strengthening the capacity of public institutions to deliver efficient and effective public goods and services. Over time the mechanism will provide a suite of on-line services to the public thus increasing the ease of doing business with Government. The objectives are to:

1. reduce overall telecommunication costs for the GOJ
2. improve secure communications
3. reduce the transaction costs associated with the provision of public services and information.

11.0 User Fees

The true cost of providing a service with requisite outputs and outcomes must be considered in the treatment of user fees. The current situation does not provide for recovery of total costs, since both those who can afford to pay for a service and the poor and vulnerable are subject to paying the same fees that bear no resemblance to the true costs of production. This, therefore, impacts on the cost to government which results in substandard services in some entities and highly subsidized fees that impact on other areas of operation for the respective entities.

A general policy must be stated regarding the true cost of services that include the production of an item, for example birth certificates and passports. A realistic cost should be arrived at based on the real cost of production and a policy be instituted on how to treat with those persons who cannot afford the true cost. In this case, a notional fee could be considered and the criteria that would provide for such persons should be clearly delineated and adhered to as a rule.

12.0 Other Cost-Saving Initiatives

12.1 Accommodation for government offices

There should be consolidation of GOJ offices at the parish level where possible to a central location. This is consistent with the principle of the ease of doing business applied to government. It would also include urgent implementation in all instances, where possible, of the “one stop shop” concept.

12.2 Space rationalization

The issue of Government Ministries and Agencies occupying expensive rental space in the New Kingston area continues to be a major source of concern. An island-wide survey of all government offices, indicating location, available space and the cost of repairs and

refurbishing to allow for accommodation of government entities currently paying rental has been undertaken. There are Government-owned buildings currently unoccupied. Ministries and Agencies should be proactive in ascertaining where space exists that could allow them to reduce high rental costs. Every effort is to be made to maximise the use of Government buildings for use by Government entities. Funding must be identified for renovation and use of Government buildings to reduce rental costs.

12.3 Utilities and Miscellaneous Costs

Cost reduction could be realized immediately in the following areas:

1. Use of existing technology to reduce communications costs across government (e.g. PBX rationalization)
2. Outsourcing services such as messenger/delivery services, driver and meal services
3. Rationalizing GIS and other licences both locally and internationally
4. Reduction of newspaper subscriptions (increased utilization of online facilities)
5. Increased use of electronic media, as opposed to paper, for communication inter and intra- Ministry. Acceptability of email letters and digital signatures is to be considered.

12.4 Payment of International Membership Fees

A careful review of all membership fees to various regional and international organizations should be undertaken to ensure that the value derived from such memberships will redound in higher value-added to the people of Jamaica. The Ministry of Foreign Affairs and Foreign Trade should be responsible to advise the GOJ on this matter after consultation with all MDAs.

13.0 Conclusion

The recommendations contained in the Master Rationalization Plan reflect the collective inputs of the major stakeholders. The anticipated results of the entire process of transformation include the following:

1. A refinement of the role and functions of government based on government's priorities and commitments to the people of Jamaica
2. A more pragmatic approach to public sector management based on sound principles of management and good governance
3. Curtailing public sector expenditure by rationalizing and streamlining functions and services to achieve greater efficiency and cost effectiveness
4. A change in organizational culture with an increased emphasis on high quality customer service and general improved quality service delivery
5. An increased emphasis on human resource development and management that is translated into ongoing improvements and building capacity at all levels that reflect high quality competencies and skills
6. Improved financial planning and appropriate systems of budgeting and controls that are performance and output related
7. Increased reliance on information technology/ICT systems through the implementation of an effective Government Network system

8. Greater devolution of managerial autonomy over human resource, finance and operations.
9. A strong accountability framework that will ensure clear lines of responsibility and performance targets, with the proper monitoring and evaluation mechanisms to assess both outputs and effectiveness.

It is vital that the process of Public Sector transformation is a collaborative, consultative and coherent one, so that collectively we can realise our vision of a “*transformed, cohesive Public Sector that is performance-based, efficient, cost-effective and service-oriented*”.

Part V

Panelists' Contribution to Symposium on the Growth-Inducement Strategy

A

State of the Economy

Nicholas Scott
Vice President, Private Sector Organisation of Jamaica

Dr. Gladstone Hutchinson, Director General of the Planning Institute of Jamaica, Professor Donald Harris, other distinguished guests, panellists and fellow partners in the development of Jamaica – good morning. My name is Nicholas Scott, Vice President of the PSOJ and Chairman of its Economic Policy Committee.

My goal this morning is four fold: to summarize the PSOJ's own economic policy framework, to give you the state of the economy from the perspective of the private sector, to outline the PSOJ's reaction to the growth-inducement strategy, and, finally, to leave you with some parting thoughts on the way forward.

1.0 Review of PSOJ's Framework

I've been that told I have 20 minutes, but in doing my part to increase productivity I will try my best to beat that target. A year-and-a-half ago, as the global economy was falling into the "great recession," Jamaica's debt was being downgraded, interest rates were still above 20 per cent and any change in Jamaica's debt instruments was something one only whispered – the PSOJ began developing an economic policy framework. The goal was to provide a realistic and concise set of policies which we believed would produce sustainable and high rates of growth and job creation.

Our framework has four components: A foundation and three pillars. The foundation is macroeconomic stability. Like the foundation of a house, without it there can be no structure, but in of itself, it's not exactly somewhere you want to live. So on this foundation, we proposed three pillars critical for growth. We called them "growth enhancing," but, perhaps, in retrospect, we should have called them "growth inducing." These were: reforming the tax system, creating an enabling business, legal and regulatory environment and reforming industrial (including Energy), Trade and Investment Promotion Policy. Within each of these pillars, we listed specific action items in detail. The framework is available on our website – www.psoj.org - in its entirety and I would encourage everyone to review it.

2.0 Private Sector's view of state of the economy

Looking back on the framework, more than a year after its release, is a useful lens through which to examine the state of the economy from the Private Sector's perspective. In some ways, it's now a dated document. Through the JDX, the implementation of an IMF programme, an adherence to fiscal discipline, a commitment to lowering benchmark rates and key divestments – we have repaired the foundation of macroeconomic stability that had long been the binding constraint to growth.

With the benefit of hindsight, some now say that these developments were inevitable. For our part, we know that they involved difficult choices and decisive action and wish to congratulate policymakers once again for these important successes. At the same time, we are yet to begin work on the pillars that will ultimately lead to growth and an improvement in the standard of living of all Jamaicans.

Our tax system remains inefficient and inequitable. The regulatory and legal systems in which businesses operate still tie one hand behind the back of our entrepreneurs as we compete with the world. And finally, there has been no noticeable improvement in our investment, industrial and energy policies to speak of.

A review of the framework makes it clear that while we have undertaken the critical and difficult work of restoring stability in the macroeconomy – we are yet to begin building our growth pillars. The house is unfinished. Perhaps we’re finding it hard to get the permits. A review of our growth rates also makes it clear that stability was indeed “necessary but insufficient.” The official GDP figures and my day-to-day responsibilities in the manufacturing, distribution and services businesses in which I operate - confirm that while growth rates are picking up, the recovery remains very fragile.

Today, the PSOJ believes that we are essentially in a race against time. We believe that the major economic question facing Jamaica now is which of two outcomes will happen first. Will we succeed in erecting the growth pillars, or for that matter, implementing the Growth- Inducement Strategy and reap the rewards that macroeconomic stability provides? Or, will the public become so disenchanted with the sacrifices that have been made and so sceptical that the economists know what they are talking about, that a new consensus will emerge and unwind the difficult progress that’s been made?

Such a tear in our social fabric would not be the result of the ignorance or naiveté of the public – but would represent a completely legitimate sentiment that we the business people and policymakers have failed. It is, therefore, incumbent upon all of us to collectively ensure that we complete the work before it’s too late and before this opportunity, like so many others before it, vanishes into the dustbin of history.

3.0 Reaction to Growth- Inducement Strategy

In this context, the PSOJ welcomes the PIOJ’s Growth-Inducement Strategy. The document shares most of the elements in our own framework, and not surprisingly, the PSOJ has no major disagreement with the strategy as proposed. Nonetheless, this morning, we would like to share the following observations and reactions.

Firstly, the fiscal situation continues to have serious risks and still deserves our laser-like focus. While the Growth-Inducement Strategy is centred on areas of growth, we believe that policymakers still need to implement key fiscal reforms such as: fiscal responsibility legislation and central treasury management. Of great concern to the PSOJ is the size of unfunded pension obligations in the public sector, which by some estimates is as large as 25% of the public debt. The annual costs of just the pension expenses of current retirees

is reported to have increased by J\$6 billion this year, to J\$24 billion or one-third of the JDX's annual savings. We need to tackle this phantom debt, before it comes back to haunt us. Leaving this situation unaddressed is unacceptable. We need a contributory scheme for public sector workers now and not a Jamaica pension exchange later.

Secondly, we must resist the temptation for large public spending to stimulate growth. The Growth-Inducement Strategy calls for J\$14 billion of spending. Some already announced and all worthwhile. That said, we caution strongly that any large-scale spending campaign beyond these levels would be unwise. The Pre-JDX era is still fresh in our minds, as are the sacrifices the private sector was asked to make. Any one-off, ad-hoc projects that would threaten our fiscal commitments would break this covenant and be bad for economic growth.

Thirdly, immediate and wide-reaching tax reform is critical and our preferred stimulus. The Growth-Inducement Strategy lists tax reform as a medium-term measure, though it does list some tax items in the immediate term. We believe that the time for immediate and wide-ranging tax reform is now. We endorse wholeheartedly, the PIOJ's call to remove stamp duty on loans that are refinanced and believe it will lower borrowing rates for average Jamaican consumers and businesses. But we would go further and suggest the following for immediate action.

- Firstly, lower the GCT rate significantly. If done in conjunction with removing exemptions, it will be revenue neutral, and will provide a large stimulus to the economy and create a permanently simpler system.
- Secondly, unify external tax and tariff rates. With the myriad of rates and the expensive system of administration, the average statutory and collected rates are astonishingly low.
- Thirdly, unify and simplify the structure and you will not only have a simpler, less corrupt and cheaper system to administer, but you will collect more revenue. It's a no brainer and a game changer.
- Fourthly and finally, if we do not lower our cost of energy, we will not have high rates of growth, full stop.

While the Growth-Inducement Strategy proposes net metering and net billing, we believe this is not enough. We need aggressive policy measures focused on lowering the cost of generation and changing the regulatory framework so that consumers and business pay 20 cents per kilowatt hour instead of 30 cents. We understand that this topic is "charged", but you can count on the PSOJ's support.

4.0 Conclusion

In conclusion, we congratulate the PIOJ on its work in preparing the Growth-Inducement Strategy. The document is a well-crafted and well-designed set of policies which we believe can produce high rates of growth. Nevertheless, it's still a document. Our President likes to say that Jamaica is the most studied economy in the world, and he's

right. Where we as a society fail is in the implementation not in the design of public policy.

We suggest that as we seek to implement this strategy, we learn from our recent successes. As the JDX and IMF programme illustrate, good implementation is a function of: clearly articulated and measurable objectives, a broad consensus, high penalties for failure and regular public monitoring. The PSOJ looks forward to playing its part in taking the Growth-Inducement Strategy off the page and into the lives of Jamaicans.

Thanks for your kind attention.

B

Community Renewal Programme

Carol Narcisse
Convenor, Civil Society Coalition

1.0 Introduction

First, a quote from the document:

“A Growth- Inducement Strategy for Jamaica in the Short and Medium-Term”

GUIDING PRINCIPLES:

- unleash entrepreneurial dynamism by unlocking latent wealth tied up in idle assets
- investments in infrastructure as a catalyst for job creation through strengthening resiliency of the built and natural environment
- build an innovative and competitive modern economy of big and small firms by strengthening business networks and removing supply-side constraints
- modernize and improve the efficiency of government
- social inclusion through community renewal, expanded self-agency and equity
- proactive partnership between government and private sector.

The Community Renewal Programme (CRP) now brought into the framework of the growth-inducement strategy is potentially a brilliant strategy – potentially, it could signal that Jamaica is ready to begin to acknowledge and repair the structural and systemic barriers that have frustrated the aspirations of the majority of its citizens. It could signal that Jamaica is ready to fly by dint of the elimination of the impediments that serve to render as under-utilised and under-developed the single greatest asset it has – its people. The plan, therefore, has game-changing potential.

The document notes that :

The deadweight of that history now hangs heavily over the present. The reference is to the Jamaican economy(which) has been in a chronic state of near stagnation for at least 35 years.

The CRP, placed within the context of the growth- inducement strategy, has another deadweight of history to address, namely, the historical ‘less-counting’ marginalization

and exclusion of the majority of the people of the country – the largely rural poor and urban second class citizenry.

The question is: Does the way the CRP is elaborated in the Strategy reflect this in terms of how it ‘images’ the residents of the targeted communities and how it frames the nature of the enterprise being undertaken.

Fundamentally:

- ❖ Who do we think of when we hear the term “private sector” and what is there in the strategy that seeks to shift this mind-set or change this paradigm?
- ❖ The document indicates that what is required for the process of awakening and recovery from our state of inertia is a *systematic approach to designing and implementing integrated policy solutions aimed to modernize and transform the economy so as to meet the challenges of operating in a dynamic, competitive world where the country has lost ground relative to others that it led or equalled some 50 years ago. Who has lost this ground? Our athletes? cultural producers?* (think music, fashion, food, literature, film, fine art, dance, theatre, Rastafarians, naturopaths, etc **our skilled professionals who are in high demand elsewhere? our colleges and universities?** How central are these to the conceptualization of the private sector led growth-inducement strategy? What are the provisions to accelerate their development in the short to medium term? How would we have to calibrate things (including the CRP) if these were to be the engine of growth as much as the existing tourism, mining and quarrying, construction/infrastructural development etc as important as these remain.
- ❖ The document notes that: *In essence, it captures the reality of the present moment which demands re-orienting our economic policy towards a sharpened focus on enhancing growth as the necessary basis for realizing sustained improvements in the social well-being of citizens, consistent with the goals of Vision 2030 Jamaica.* Much of development literature, not the least of which is the 20th Anniversary Edition of the HDR 2010 set out clearly that growth is not a sufficient condition for “sustained improvement in the social well-being of citizens...” Indeed, the 2010 HDR illustrates that political will and commitment to human and social well-being, reflected in budgeting priorities, result in some low growth countries having higher HDI than high growth countries. It isn’t an either or proposition, however, let us be clear that our choices in how we allocate sources are not neutral.

2.0 The conceptualization of the CRP in the Strategy Document

Para 2.6 Sets out the cost of crime and is the entry point for reference to the CRP, specifically,

In this context, the proposed Community Renewal Programme is expected to provide an essential antidote to the cancer of crime by offering positive alternatives to illegal activity in 100 targeted communities throughout the island. Combined with other proposed measures for urban-regional development and strengthening the capacity of MSMEs, these efforts serve also to meet the need for levelling the playing field, broadening participation in the growth process, and combating the social marginalization that affects many of our citizens.

Section 3: Components of the Growth Strategy; paragraph/item 5 (of 6) take a different tack; specifically:

Spearhead the drive for economic growth with an immediate and concerted effort to ramp up the Community Renewal Programme to unlock creativity and entrepreneurship in targeted communities throughout the island as a foundation for organic and sustained development of such communities and as a positive alternative to illegal options (hence, as an antidote to crime). In combination with other local and regional initiatives by government and private sector working in partnership (e.g. Downtown Kingston Redevelopment) and a strengthened programme of on-lending to MSMEs, provide thereby an holistic and integrated programme of social inclusion that levels the playing field, broadens the base of participation in the growth process, builds confidence, and allows buy-in by stakeholders.

Then, the Growth Strategy Matrix at page 14 places the CRP in the context of crime reduction and the last item on the matrix Urban/Regional Development, brings forward the CRP and development projects, namely, Downtown Kingston Redevelopment and West Kingston Commercial Lifestyles Centre. And so the CRP as part of the growth strategy (that is private sector led) has an inbuilt ambivalence:

- ❖ On the one hand, it sounds a bit like containment and appeasement, and as is explicitly stated an ‘antidote to crime’ more strongly and often than an according of the social, economic and cultural rights of the people; an according of the respect that is due; an acknowledgement of the sterling contribution ‘the people’ are making through their intellectual capital, creative imagination, entrepreneurial zeal and bent; perseverance through unspeakable odds and exclusion; athletic gifts; inventiveness
- ❖ From such a view of our people the CR would be constructed in a human rights framework explicitly setting out to accord the right to access and the entitlements of a significant percentage of the citizens of Jamaica whose lives reflect the present-day legacy of sinister and cynical political processes that corralled/tribalised and impoverished as a strategy to enforce dependence on, first, political patronage then the patronage of Dons
- ❖ The enterprise is to break the stranglehold of a paternalistic relationship between the MP and citizen, to appropriately identify the differentiated relative position and condition of life of community members – males, females and among them -

the elders, youth, children. What for example would be the knock-on development impact of a gendered approach (a strong argument for which is contained in Table A9.2 Unemployed Labour Force by Age & Gender 2009-2010). What is it about the structure of the socio-economic environment that has women having higher levels of unemployment - twice the number of unemployed males in such age groups as 25-34, 35- 44; except for the age groups 14 – 19 and 65 and over. What strategy will ‘unleash’ their creativity/entrepreneurship, access to titles, access to employment in the intended infrastructural works which are a lynchpin of the growth strategy.

3.0 On the Matter of Governance

Neither the growth strategy nor within that the CRP shall have the desired success in the existing governance model in Jamaica. Where is the bi-partisan buy-in strategy? How will we mitigate against the corrosive effect of electioneering in Jamaica, which, if we the citizens do not take a stand, will be unleashed as we get further in the year and closer to 2012. The growth- inducement strategy and CRP will be all but dead in the water if it is political business as usual in the lead up to the next general elections. This risk is noted rather euphemistically and obliquely in the strategy document, page 90, as follows:

Near-term political economy will pose a critical challenge to the sustainability, and hence credibility, of the current economic programme and policy stance.

Despite this threat, the Strategy document gives the overarching governance framework slim treatment in item 6, namely

Adopt a new role for government. At present, government is widely perceived to be —part of the problem. In fact, government is beset with inter-agency coordination problems and, by its own actions, creates market distortions, allocative inefficiencies, avenues for rent-seeking and corruption. Now engaged in a contractionary mode, government should seek to pull back to performing well its core functions, efficiently delivering services to the public and acting, not just to facilitate, but also to become an effective partner with the private sector.

We need to transform governance not just the ‘efficiency of government’.

If the CRP is to realize its transformative potential it needs:

- ❖ A human rights framework for economic and social development
- ❖ A radically transformed governance ethos and practice – the ECJ, Contractor General recommendations need immediate action; anti-corruption and impeachment legislation; expanded access to information provisions; transformation of the role of the MP vis a vis the agencies of the state and non-

- state sectors engaged in community development; real local government reform that empowers PDCs, CDC etc
- ❖ A re-imagining of the people and their communities by those who would seek to ‘re-engineer’ their lives, beginning from an appreciation of their intrinsic assets and capabilities, their inherent goodness, their sterling contribution to creating what we now market as “brand Jamaica” and as such their just desserts as the creative agents
 - ❖ To become a national thrust going beyond the 100 communities identified for their pathologies and perhaps because they hold public attention for acting out; to instead be “the way” – the way we are with and for our people across the length and breadth of the island – a national resolve to never again practise exclusion, marginalization and stigmatization of the majority of our people.

4.0 Existing Assets

Finally, a brief word on Appendix A7: Proposed West Kingston Commercial Lifestyles Centre - Concept Note

It is a curious proposal – why concentrate and corral? What of existing assets:

- ❖ Ward Theatre
- ❖ Liberty Hall
- ❖ Ocean Boulevard plazas
- ❖ Kingston craft market
- ❖ What audit of existing internet cafes
- ❖ The performing arts programme of Area Youth
- ❖ Art in the street programme of Multi-Care Foundation
- ❖ Outreach programmes of ACIJ and IOJ
- ❖ Galleries for community development like Studio 73 and Rock Towa
- ❖ A properly managed St. William Grant Park
- ❖ The proposed restoration of historic churches and the community renewal programmes associated with that plan

Rather than reinvent, let us audit to identify then place additional resources to enhance, expand, ensure sustainability, fast track, replicate, scale up the great stuff that already exists and/or is taking place – there is great scope for public-private partnerships and investment opportunities in this city and nation. At all costs, avoid concentrations – spread the investments, assets and the love.

C

Enhancing National Resilience: Focus on the Built and Natural Environments

Dr. Barbara Carby
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1.0 Background

This presentation was prepared for the Planning Institute of Jamaica's launch of its Growth- Inducement Strategy. As the time given to each presenter is short, only a brief review and discussion of the topic "Enhancing National Resilience: Focus on the Built and Natural Environments" is possible.

2.0 The Growth Inducement Strategy

I will first look at some aspects of the Strategy and then at aspects of national resilience.

The Strategy states that US\$19 billion worth of Jamaica's infrastructure assets are exposed to natural hazards. On average, each year 1% - 2% of GDP is lost to the impact of hazards. These figures do not reflect the human costs – death, injuries, suffering, loss of livelihoods and income. It is clear that if national growth is to be induced and maintained, the question of resilience to the impact of hazards must be confronted.

The United Nations International Strategy for Disaster Reduction (UNISDR) defines resilience as "The ability of a system, community or society exposed to hazards to **resist**, absorb, accommodate to and **recover from** the effects of a hazard in a **timely** and efficient manner, including through the preservation and restoration of its essential basic structures and functions." A resilient society, therefore, suffers less impact and is able to recover from the effects of a disaster much more quickly.

The Strategy covers major issues related to growth inducement. However, there are three areas which were omitted, and which have implications for both growth and national resilience.

1. The agriculture and water sectors are not included in Part IV.F; but Table F.1 indicates that, at March 2010, Agriculture, Hunting and Fishing employed most persons – approximately 25%. This would seem to be a potential area for growth. Agriculture is, of course, also a critical component of food security, itself an important component of national resilience.
2. Water will be needed for any type of growth - short, medium or long term. Given the present challenges associated with water delivery in many areas, coupled with increasing climate variability, it would be expected that this topic should be included.

3. Climate variability and climate change projections need to be examined in more detail. Planning for the Caribbean should examine the impact of climate change over the next 100 years. Results from a 2010 modelling of the impact of climate change for the Caribbean, carried out under the Caribsave Project (Simpson et al), included:
 - An increase in rainfall – more periods of rainfall which will lead to flooding and erosion
 - Increasing temperatures (0.7 - 3.0C by 2099)
 - An increase in extreme events such as droughts
 - A rise in sea levels (an estimated 80% increase) which has implications for Jamaica as a large portion of coastal lands are of economic benefit to the country.

Although the overall projection relates more to the medium and long-term, it should be noted that temperature and rainfall effects are already being felt. Jamaica should seek to invest less in the coastal areas which will, in a few decades become vulnerable to the effects of climate change. In planning for these areas, the design and implementation of infrastructure should be such that it is able to withstand climate related hazards. Areas such as the creation of resilient crops should also be considered.

The main economic drivers, Agriculture, Tourism and Fisheries are all climate sensitive. Infrastructure is highly susceptible to climate-related hazards and proportionately suffers more damage than any other sector from weather-related hazards. Climate variability/change must, therefore, be **adequately** factored into planning in all sectors, regardless of the planning horizon.

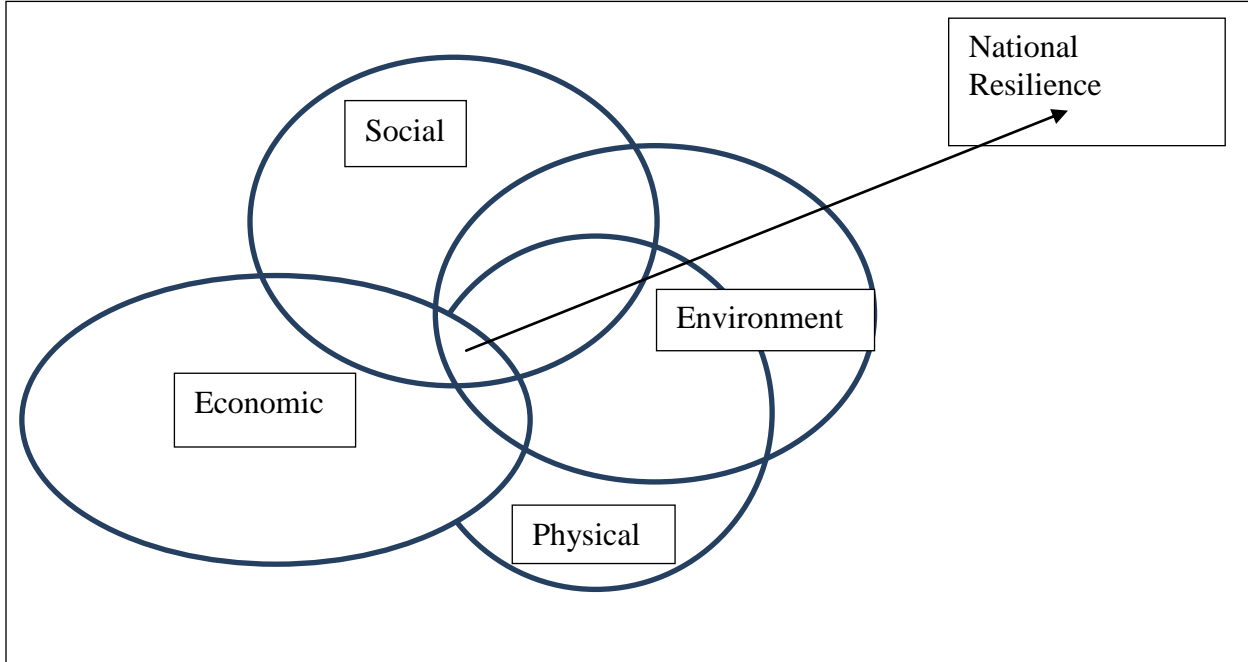
Another observation to be taken into consideration for the growth strategy is the effect of the earth's heat on the fish nurseries. Recent data showed that the heat of the earth is being absorbed by the oceans.

The bleaching of the coral reefs is another area to be explored because of its implications on limiting the lifespan of fishing stocks.

3.0 National Resilience

In my view, resilience is multi-faceted. I will, therefore, broaden the discussion beyond the built and natural environments. In considering national resilience we must realise that our economy, our physical assets, our environmental assets and our human capital must all be robust. I have tried to represent this in Figure C.1, which shows that national resilience is achieved at the intersection of economic, environmental, physical and social resilience. Only when all these are resilient can we say that the nation is resilient.

Figure C.1. National resilience is multi-faceted



Hardening of infrastructure and buildings makes them more resistant to the impact of hazards. Sound management practices and conservation measures help to protect the environment, which in turn is important for mitigating the effects of weather-related hazards. Coral reefs and mangrove stands, for example, protect coastlines from wave action and storm surge. A diversified economy with adequate risk transfer mechanisms will be more robust, increasing resilience to disasters as well as providing an engine for growth and development. Social resilience is achieved by investing in our human resources.

Social capital is not often included in discussions on resilience and economic growth. However, as Table C.1 shows, there is a link between social resilience and doing business, and therefore presumably, economic growth and national resilience.

Table C.1. Social Resilience and Business

Enhancing Social Resilience (Saperstein)	Global Competitiveness Indicators (GCI)
Encouraging adaptation	Capacity for innovation
Fostering learning and education	Quality of educational system/education enrolment rate
Supporting self organisation (of communities)	Transparency of government (policy making)

In Table C.1, I try to map factors for social resilience to global competitiveness indicators (GCI) listed in the Growth-Inducement Strategy. The first column shows some aspects of enhancing social resilience, after Saperstein (undated). The second column shows Global Competitiveness Indicators as shown in Table 8.5 in the document (see Chapter 8). I do not have the time to go into these in detail here, but will try to make some linkages.

There are commonalities between encouraging adaptation for social resilience and a country's capacity for innovation. Adaptation calls for innovation. Fostering learning and education is the second factor in social resilience. The corresponding GCI is "Quality of educational system/education enrollment rate". Investing in education for the population and fostering a learning environment within and outside of the formal education system will result in a higher level of global competitiveness. The link between supporting self-organisation and transparency of government is not as clear-cut. However, I would argue that any government committed to good governance, of which transparency is an important aspect, will support communities in self organising, and will provide a policy framework which encourages the population's participation in all aspects of national life. The resulting cohesion is important for social resilience.

4.0 Summary

Jamaica's experience clearly demonstrates that the impact of hazards and disasters has caused significant losses, averaging up to 2% of GDP per annum, and retarding growth. A resilient nation with a robust economy will be better able to recover from shocks – whether natural or man-induced. It is clear that building national resilience must be factored into our planning. National resilience is multi-faceted and includes physical, economic, social and environmental aspects. Investment in all aspects is required if economic growth is to be achieved and sustained.