

JAMAICA 2030:

A Strategy For Developed Country Status

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EXECUTIVE SUMMARY

In order for Jamaica to transition from a **Developing Country** to a **Developed Country** it will be highly necessary to create a Knowledge based society, the inability to seriously overcome this challenge will mean Jamaica will be in transition to a developed country for an infinite number of years.

The thinking here is nothing new as the Newly Industrialized Countries (NIC's) of S. E. Asia discovered this 15-20 years ago and much of their successes can be accredited to the building of strong Knowledge based economies, they have now mastered the Knowledge Based concept and their societies are now moving in the direction of Network societies- the latest 21st century paradigm.

In Jamaica, the government speaks to this in a limited way in their **Public Sector Modernisation Vision And Strategy 2002-2012 September 2002**, by outlining their approach over a ten-year period as follows:

In order to achieve good governance the government have set the following strategic objectives: Creation of a Knowledge Society, which is fundamental to informed decision-making and concerted action, by:

- Facilitating access to information through all available media
- Publishing better designed and user-friendly brochures on policy, procedures and government services

- Putting in place systems and structures to effectively implement the requirements of the Access to Information Act
- Appointing dedicated liaison officers to provide information to the public in all departments and other agencies.

However, to complement this a similar commitment from the Private sector in Jamaica will be necessary. At this time this is not self-evident.

The concept of the Knowledge society needs to be better articulated by the Information Ministry Of The Government and as such one could draw the conclusion the Information Ministry itself is not truly au fait with the concept and as such they enunciate but they need to articulate strongly in order to facilitate rapid progress in this area.

Economic research on knowledge comes in various forms. For example, there has been much research on the importance of human capital, in terms of education and/or skills, to economic growth. Similarly, research has been conducted on innovation and research and development (R&D) that lead to new technology, which ultimately leads to increases in output per capita. In addition, there has been some focus on the effects of information and communication technologies (ICTs) on the flow of knowledge and information and its ultimate effect on economic growth

The literature speaks to four preconditions that lead to knowledge becoming an effective engine of growth. These are:

- An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.
- An educated and skilled population to create, share, and use knowledge well.
- A dynamic information infrastructure to facilitate the effective communication, dissemination, and processing of information.
- An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilates and adapt it to local needs, and create new technology.

However, in order to satisfy these preconditions a seven(7) point strategy will have to be adopted as follows:

- Social Development
- The Environment
- Poverty
- Sustainable Economic Development
- Competitive Strategy
- Modernization Of State
- Regional Integration Strategy

This document will examine this 7-point strategy as it applies to Jamaica.

Realistically, if Jamaica were to adopt this seven-point strategy in 2005, we would not achieve Developed Country status until 2030. As such, Jamaica would not become a developed country until 2030.

Political independence was achieved in 1962. The final step, Economic Independence can be achieved by 2030.

Peter W Jones

Executive Director

Economic Development Institute

January 10,2005

THE STRATEGY

THE APPROACH

In order for this strategy to be implemented, the concept of linear thinking has to be seriously sidelined or a stronger word would be, eradicated. The strategy requires a simultaneous multidimensional approach. Each section of the strategy will be considered an arena of war one is operating in, to lose domination of the arena is not an option. But, you're operating in all arenas simultaneously.

This will require a new breed of Jamaican politician, with 21st century thinking i.e. combining strong intelligence quotient (IQ) with equally strong emotional quotient (EQ)¹.

PART 1: SOCIAL DEVELOPMENT STRATEGY

HUNGER AND POVERTY IN JAMAICA

Rural poverty is on a serious increase in Jamaica the figures tell us there was a 25.1 % increase (ESSJ 2003 Page 25.10). The Youth, the future of Jamaica, under the poverty line is approximately **93,572** (see STATIN 2003, Demographic Statistics Page 6 Table 7).

The Social Development Strategy included in this document is one of the seven new strategies being examined by the Inter American development Bank (IADB). Its objective is to help countries accelerate social progress, by fostering human and social environments conducive to the well being of

¹ EQ is the new name for street smart

the population, with special emphasis in the reduction of poverty and inequalities in opportunities.

The strategy proposes four priority lines of action:

- Customize social sector reforms;
- Advance human development with a life-cycle perspective;
- Promote social inclusion and prevent social ills;
- And advocate the delivery of integrated services with a territorial focus, to advance in well being and to combat the multiple disadvantages of the poor and excluded.

CUSTOMIZE SOCIAL SECTOR REFORM

In order to address the issues of health, education and housing reforms, it will be necessary to understand the politics, seek consensus, use local talent, set realistic objectives and time frames, tailor reforms to incorporate cultural diversity, measure results, promote good management practices and provide financing options.

HEALTH REFORM

Health reforms will have to be phased according to country possibilities, emphasize specific health objectives, incorporating the MDGs, and raise the profile of public health. The government will have to assist in: promoting the efficiency of public resources expended in health; reducing health gaps between rich and poor; promoting community based health systems, and

decentralization of health services; reducing inadequacies in human resources, infra-structure and supplies; and achieving a better balance between disease prevention and control.

REFORMING EDUCATION

The government will have to fulfill the MDG² of universal completion of primary schooling and the Summit of the Americas target of secondary school coverage for at least 75 percent of young people, emphasizing two overriding objectives: equity and quality tailored to conditions at the national level. It will have to promote schools as the locus of re-form; advance quality inputs; and explore new options for post-secondary and higher education.

REFORMING HOUSING

To further the attainment of the MDG of reducing the population living in slums, the Government will have to continue supporting housing reform to improve the living conditions of low-income households; enhance sector effectiveness; and promote sector-wide allocative efficiency of housing and related markets. Interventions will have to stress the need to solve the shelter problems faced by low-income populations as part of a coherent system that improves the existing housing stock and urban services, expands the production of affordable new houses, and ensures solutions to other socioeconomic groups that also need housing.

² Millennium Development Goals which countries are to achieve by 2015

HUMAN DEVELOPMENT AGENDA

The Government will have to implement a human development agenda using a life cycle framework. It will privilege successful transitions between key stages in the life cycle of individuals and families paying special attention to disadvantaged ones, and define and track the performance of outcome indicators. Basic principles include: investing in human capital accumulation early and continuously; targeting critical life cycle transitions, for example, adolescence; emphasize a gender lens; integrating institutions to support successful transitions; and promoting equality of opportunities for all. Strong efforts will have to be made to banish hunger, reduce malnutrition and enhance early opportunities; developing inclusive employment systems; and promoting comprehensive and sustainable pensions.

SOCIAL INCLUSION AND PREVENTION OF SOCIAL ILLS.

The government will have to increase its capacity to fight social exclusionary practices and social ills. It will need to emphasize strengthening data acquirement capabilities; and foster partnerships between the public and the private sectors, NGOs, religious and grass root organizations, and the media.

PROMOTE SOCIAL INCLUSION

It will be highly necessary to promote the social inclusion of all individuals who, because of features such as age, gender, race and ethnicity,

disability, or migration status, lack access to a wide range of opportunities. The making of public investments designed to correct imbalances will be required.

PREVENT SOCIAL ILLS

The reduction of social ills including child labor, HIV/AIDS, and domestic as well as social violence. It will privilege cost-effective prevention including early intervention; social as well as context-specific prevention strategies; epidemiological risk assessments; and the design of integrated responses.

INTEGRATED SERVICES WITH A TERRITORIAL FOCUS.

To provide effective responses to the multiple disadvantages of the poor and excluded, frequently, poverty is concentrated in spatially segregated territorial areas –either in low-income slums or rural municipalities. A spatial focus facilitates diagnosing specific community needs, tailoring services, executing actions and assessing impacts. Urban neighborhood upgrading and integrated (rural and urban) community development projects take advantage of the synergies of combined interventions, amplifying their impact and reducing the fragmentation and duplication of policies common to many social assistance programs.

OPTIONS FOR THE GOVERNMENT OF JAMAICA AND IMPLEMENTATION GUIDELINES

The GOJ³ should place emphasis in the strengthening of the following areas:

PROJECT PREPARATION

Increase the use of research, seminars and social policy dialogues in establishing social priorities during the pre-programming and programming phases of the project cycle, and strengthen the diagnosis of social issues in Country Strategy Papers (CSP); mainstream discussion of cross-cutting social development issues, such as gender and social inclusion, into CSP; and implement a programmatic, country focus which fosters donor and lending coordination, tying disbursements to achievements in reforms, social expenditures and indicators linked to the MDGs.

PROJECT DESIGN AND IMPLEMENTATION

At the design stage, ensure that social projects more adequately reflect local realities and incorporate local resources, more so than in other sectors. During implementation, provide technical assistance for project execution and, without sacrificing accountability, develop more appropriate, simplified mechanisms for social sector project execution.

FINANCIAL PRODUCTS FOR SOCIAL PROJECTS NEEDS

Develop financial instruments that are more flexible and appropriate to the social sectors, including increased use of multi-phase and innovation projects and the development of new programmatic instruments.

³ Government Of Jamaica

TECHNICAL ASSISTANCE FOR SOCIAL PROJECTS AND ACTIVITIES.

Expedite response to requests for new diagnostic tools as well as for evaluating and monitoring social programs and increase the pool of grant funds for technical cooperation operations in the social sectors.

GOVERNMENT MONITORING, EVALUATION, AND PERFORMANCE INDICATORS

The strategy adopts a results-oriented approach, which implies the ability to monitor and evaluate the Government's actions. This task will be supported by the work currently being carried out by the Government to improve the measurement of the development effectiveness of operations (i.e., consolidation of each phase of the project cycle; programming and design of projects with a goal-oriented focus; and results-based project execution). The monitoring of the strategy's implementation should be performed, in principle, through indicators to measure outputs, outcomes, and impacts. Among output indicators are: the number of grant funds for social projects and the proportion of innovation, multi-phase and new programmatic loans in social sectors. Outcome indicators would be obtained from project evaluations. To adequately assess the out-comes of government action it is necessary to carefully evaluate social sector projects. These evaluations should help fine-tune the design and execution of social projects over time, strengthening their contribution to the country's development. Therefore, the Government should improve

evaluation components in social projects. Among the many impact indicators are: infant mortality rates, school enrolment rates, youth in labor intermediation programs, and rural elderly women with pension coverage. For the most part, the implementation of the strategy will depend on the priorities established by the Government, the circumstances affecting them, and the resources available. The evaluation of the strategy should be carried out five years after its approval.

PART 2: THE ENVIRONMENTAL STRATEGY

OVERVIEW

Jamaica is prone to natural hazards such as hurricanes, floods and earthquakes⁴. In addition the island suffers from man-made hazards such as oil spills, pollution and chemical contamination. These hazards become disasters when their occurrence overwhelms the local capacity to deal with response, recovery and rehabilitation. When hazards become disasters they are inevitable costly, socially, economically and environmentally.

The Government of Jamaica Draft Mitigation Policy was completed to guide the integration of hazard mitigation into all policies, programmes and plans at national, parish and community levels. The draft policy sets out six (6) objectives to ensure:

- Adequate institutional capacity to implement the hazard mitigation policy;

⁴ ESSJ 2003,pg 18.1

- An efficient, effective and integrated framework for the reduction of Jamaica's vulnerability to natural and man-made disasters;
- Compliance of new buildings with hurricane and flood hazard mitigation measures;
- Improved access to data, information and knowledge needed to take decisions on hazard management;
- Improved community participation in hazard risk reduction; and
- Implementation of hazard loss reduction action and plans for corporate entities.

THE APPROACH

The recommended Environment Strategy has as its objective to attain greater effectiveness in the support that the Government provides to the nation to promote the sustainable use of natural capital. The strategy seeks to insert the environmental dimension into broad development objectives, in a balanced and harmonized way across sectors.

This strategy identifies two key and fundamental lines for action, based on the Government's comparative advantage to influence improvements at the country and regional level:

- Environmental governance.
- And environmental management.

Hence, environmental governance and the development of policy frameworks that create the right set of incentives for environmental management are identified as areas in which the Government should focus its attention. In addition, the Strategy proposes specific actions for improving overall environmental performance, in terms of Government's

activity, related to the cycle of programming, design, and implementation of projects.

The Strategy has the following specific objectives:

- To set an overall framework for Government action in tune with new paradigms, challenges, and opportunities for the insertion of environmental considerations in broad development objectives;
- To operationalize the principles of the Government's Strategy and to fully internalize environmental sustainability as an underlying goal linked to its overarching objectives (sustainable economic growth and poverty reduction) and priority areas (modernization of the State, competitiveness, social development and economic integration);
- And to identify a set of guiding principles and priority actions to make the Government's internal work and procedures more effective.

The Latin American and Caribbean region is well endowed in terms of its natural resource base and environmental attributes, which, if properly managed, constitute the basis for competitiveness, sustainable economic growth, poverty reduction and the quality of life. The region continues to intensively rely on the services provided by its forest, coastal and marine resources, biodiversity, agricultural soils, and water resources. However, these resources are fragile and in most cases are in a state of deterioration. For example, recent studies from the World Bank about the genuine savings in the National Accounts, which explicitly include the depletion of natural resources and the environmental degradation caused by pollution, show that these rates are lower in Latin America in

comparison to other regions, except Africa. Consequently, the formation of net capital, needed for sustainable economic growth, could be jeopardized due to natural capital depletion. In order to address environmental degradation and generate development opportunities stemming from its vast natural endowment, the region needs to address the main causes of environmental deterioration, including the presence of distorted signals and incentives rooted in market and governance frameworks that are still underdeveloped. Also, poverty reduction and social development need to be acknowledged as key channels for improving environmental performance.

AREAS FOR GOVERNMENT ACTION

This strategy sets forth guiding principles and general priority areas of action that the Government would promote, on a cross cutting basis. The Strategy identifies two key and fundamental principles for action, based on the Government's comparative advantage to influence significant improvements at the country and regional level:

ENVIRONMENTAL GOVERNANCE

This process links and harmonizes policies, institutions, procedures, tools, and information to make it possible for a wide array of stakeholders (public and private sector, NGOs, local communities) to make fundamental decisions, manage conflicts, seek points of consensus, and be account-able for their actions. It is based on clear public and private responsibilities, respect for and compliance with the laws, and local empowerment.

DEVELOPMENT OF AN ENHANCED POLICY AND INCENTIVE FRAMEWORK FOR ENVIRONMENTAL MANAGEMENT

This places environmental actions in a truly cross cutting dimension in all spheres of policy decision making, including those which are critical to advance the agenda for the priority areas of the Government's Institutional Strategy.

In the context of the Government's Institutional Strategy, direct links should be established between the Environment Strategy and the other over-arching objectives: Poverty Reduction and Promotion of Social Equity and Sustainable Economic Growth. In terms of poverty/environment linkages it should be recognized that environmental degradation places a greater burden on the poor, who in turn are frequently most vulnerable to natural disasters. Also, it is established that economic growth is possible over the long- run only if this growth is environmentally sustainable. The contribution of the environmental dimension should be internalized in four (4) Government priorities areas ensuring the adequate treatment of the environmental dimension in each of them:

ENVIRONMENTAL GOVERNANCE AND MODERNIZATION OF THE STATE.

Government programs should seek to develop and consolidate a framework for environmental management that is transparent, participatory and one that leads to the establishment of the right priorities related to sustainable management of natural capital and quality of the environment. Areas to focus are:

- (a) Strengthening institutions and civil society participation;
- (b) Strengthening regulatory frameworks; and
- (c) Developing effective sets of environmental management instruments.

ENVIRONMENT AND COMPETITIVENESS.

Government programs should seek to preserve and improve the quality and quantity of the natural resource base, recognizing that natural capital must complement human development and financial and physical capital to achieve competitiveness and sustainable economic growth objectives.

Areas to focus are:

- (a) Enhancing the productive value of natural resources and their environmental functions and services;
- (b) Facilitating investments and market development and promoting private sector participation in environmental related activities; and
- (c) Tapping global and regional environmental markets.

ENVIRONMENT AND SOCIAL DEVELOPMENT.

Government programs should seek to contribute to reducing poverty conditions and increasing overall quality of life, recognizing that investments in environmental improvements as well as natural resources are sources of job creation and improved living conditions. Areas to focus are:

- (a) Health and environment;
- (b) Sustainable rural development;
- (c) Cultural and traditional uses of natural resources in indigenous communities; and
- (d) Prevention of physical vulnerability to natural disasters and environmental risks.

ENVIRONMENT AND REGIONAL INTEGRATION.

Government programs should promote regional economic integration under the framework of regional environmental management. Key areas to focus are:

- (a) Strengthening regional environmental institutions and harmonizing regulatory frameworks;
- (b) Promoting sustainable management of regional environmental public goods and services; and
- (c) Guaranteeing the environmental quality of regional infrastructure initiatives.

OPTIONS FOR GOVERNMENT AND IMPLEMENTATION GUIDELINES

This strategy identifies specific actions related to Government internal work and processes. Lines of action are recommended linked directly to the Government project cycle: programming, design, and implementation.

The programming phase defines the strategic framework for Government's activities in the country. Therefore, it is at this stage that the Government's priorities should be established and that the horizontal dimension of environmental considerations should be appropriately incorporated, seeking strategic coherence among different sectors and programs. To this end, the Strategy proposes four priority actions that will strengthen the Government's capacity to strategically incorporate the environmental dimension at the pre-programming and programming phase, with the subsequent inclusion in country strategy documents:

- (i) Environmental priority setting through sector reviews, diagnosis and stakeholders' dialogue;
- (ii) Approval of a new 21 st century Government environmental policy;
- (iii) Support to effective implementation or development of sector specific strategies; and
- (iv) Strengthening regional environmental dialogue and regional programming exercises.

At the design phase, a significant level of mainstreaming should be achieved by the Government, as all of the operational departments, including the private sector, have environmental staff and procedures in place. Key actions to strengthen this process include:

- (i) Enhanced environmental quality of Government operations in priority sectors through state-of-the-art procedures and methodologies;
- (ii) Enhanced expertise on key policy and technical issues and broader environmental dialogue; and
- (iii) Improved effectiveness through the development of studies and methodologies for formulating baseline data and indicators.

At the implementation phase, Government financing has direct results and impacts in all dimensions, including the environment. Key actions to implement include:

- (i) Strengthening capabilities for monitoring and evaluation in Government offices at levels; and to
- (ii) Enhancing operational supervision through local and civil society over-sight.

GOVERNMENT MONITORING, EVALUATION AND PERFORMANCE INDICATORS

The monitoring and evaluation of the strategy should be performed using output, outcome, and impact indicators. Output indicators measure the activity of the Government in the areas outlined in the strategy in terms of products produced, such as the number of loans and technical assistance operations, number of studies prepared, and guidelines produced. These output indicators are normally included in the annual Government Reports on Environment. Outcome indicators are generated from the evaluation of Government projects and are included in the project reports. The Environment Strategy is expected to contribute to achieving poverty reduction and sustainable economic growth objectives through actions that are implemented across the four Government priority areas. In this regard, the monitoring of impact indicators in the four priority areas is essential. Depending on the information available, basic indicators in these areas will be developed.

Impact indicators for environmental governance and modernization of the state include:

- 1) The strength of institutions with responsibility for environmental management,
- 2) The level of participation of civil society, and the quality of environmental information available for decision making. Similar indicators apply to links between environment and regional integration, regarding international development and trade.

Impact indicators for environment and competitiveness include: the state of natural capital (water resources, forest cover, biodiversity and energy efficiency), the degree of private sector participation in environmentally related investments, and the degree of countries' participation in environmental markets. Special attention should be given to indicators such as environmentally adjusted GDP and genuine domestic savings.

Impact indicators for environment and social development include: health and environment indicators, vulnerability to natural disasters, preservation of socio-cultural heritage and environmental endowments by traditional communities and indigenous groups, access to sources of water, access to improved sanitation, and security of land tenure. The sets of indicators presented above include efforts to advance toward achievement of the Millennium Development Goals. The evaluation of the strategy will be carried out after five years of its approval.

PART 3: POVERTY REDUCTION STRATEGY

OVERVIEW

According to the Economic and Social Survey of Jamaica 2003 approximately 19.7% of the Jamaican population is under the poverty line. This amounts to 513,704 people⁵. The poverty line in Jamaica is \$US760⁶ per annum or \$US2.10 per day, which is 2.1 times that of many underdeveloped countries, where people are living on \$US1.00 per day or

⁵ STATIN,2003 Demographic Statistics page 6 table 10.

⁶ Rate of exchange used is \$US1.00=\$Ja62.00

less and 10 US cents above the average for the Latin America and Caribbean region. But, this is still unsatisfactory for a country like Jamaica in the 21st century, which has so much potential especially.

The Government of Jamaica (GOJ) launched in 1995/96 the National Poverty Eradication Programme (NPEP)⁷; it focuses on facilitating improvements of living conditions for deprived communities, unemployed youth, low-income families with children and other vulnerable groups.

It is estimated that in the 2003/2004 financial year \$US630.6 Million dollars was spent on NPEP projects.

NPEP activities include community development and capacity building; human resources/social development and welfare; environment and natural resources protection; and micro enterprise development. Some ongoing programmes/projects include:

- Jamaica Social Investment Fund (JSIF)
- Rural Electrification Programme (REF)
- Micro Enterprise Development Agency (MIDA)
- Self Start Fund (SSF)
- Inner City Renewal Programme
- Inner-City Renewal
- Possibilities Programme

⁷ ESSJ 2003 Page 25.10

However, the fact that in one year that rural poverty increased in Jamaica 25.1 percent is of serious concern and needs to be seriously addressed.

THE APPROACH

The Strategy for Poverty Reduction and Promotion of Social Equity included in this document has as its objective to attain more rapid progress in the reduction of poverty, by tackling its root causes, and to foster greater inclusion and social equity, in order to improve the living conditions of the poor. This strategy has a multidimensional focus. It establishes the relationships between the government's priority areas and the general objective of reducing poverty, and identifies the actions that the Government should take in order to make progress in poverty alleviation in Jamaica and towards the Millennium Development Goals.

This strategy recognizes the importance of activities to promote and support policies and programs that will lead to sustainable economic growth and macroeconomic stability, as necessary conditions for reducing poverty and inequality. However, it also notes that economic growth is not sufficient and that complementary and decisive targeted actions are needed.

Therefore, the Government will need to promote and support the development of comprehensive national poverty reduction strategies, to ensure consistent poverty reduction efforts in the country. It should also support the creation of economic opportunities for the poor, through investments to improve the competitiveness of poor areas helping to incorporate them into the productive process. The Government will also

need to give priority to social development initiatives to promote social inclusion and the human capital of the poor. Economic and social development will require improved democratic governance, the development of social capital, and the political inclusion of the poor, which it will promote through modernization of the State activities. To reduce poverty, the policy should support regional integration activities with appropriate measures to increase opportunities and access to regional markets.

LATIN AMERICA AND THE CARIBBEAN REGION

The region has begun the 21st century with one third of its population (roughly 180 million people) living in poverty (as measured by the percentage of the population earning less than two dollars a day in purchasing power parity). While lack of income does not capture poverty in all its dimensions, various studies have shown there has been a reduction of just over 10 percent in the share of the population living below the poverty line since the early 1990s. However, because of population growth, the absolute number of poor did not decline in the past decade and available figures show that current poverty incidence is higher than at the beginning of the eighties.

Income indicators also show that the Latin American and Caribbean countries have the most unequal distribution of income worldwide. At the end of the decade, the richest 20 percent of the population accounted for around 60 percent of the region's income, while the poorest 20 percent

received around 3 percent. In most countries, inequality is greater than what would be expected given per capita income levels. This is due mainly to great disparities in assets and, in particular, to the level and quality of human capital and its returns. The persistent inequality in the region not only hinders efforts to reduce poverty with growth, but also is limiting the countries' growth rates.

Poverty reduction in Latin American and Caribbean will require a strategy that combines improvements in the overall Competitiveness climate with targeted measures to tackle constraints on the productivity of the poorest workers and small producing units.

- The targeted actions, which are the subject of this strategy, include: enhancing access to financial resources for small producers and poor workers through the strengthening and modernization of micro finance;
- Strengthening of property rights of the poor;
- Improving employment opportunities for poor workers with emphasis in improving training systems for micro entrepreneurs and rural producers;
- Promoting productive inclusion through infrastructure services for the poor (water, energy, transport and communications, etc.);
- Developing access, assimilation and generation of new technologies for the poor with emphasis in the development of technologies for micro enterprises and rural producers;

- And enhancing cooperation between public and private sectors to increase the productivity of the poor.

Government action in the area of competitiveness should include crosscutting policies and programs targeted to improve the productivity of rural workers through:

- Access to land, export promotion and strengthening of managerial capacity;
- And of micro and small enterprises, through managerial development and support services, access to market information, and promotion of networks and subcontracting chains.

Poverty reduction requires a democratic, effective and efficient State that is responsive to the needs and aspirations of the poor and excluded populations; that is accountable to them; that gives them a voice and influence in institutions of governance; and that provides access to economic opportunities.

In further modernizing state in order to reduce poverty and increase social equity, actions will include:

- Strengthening democratic systems and political inclusion of the poor through the promotion of their representation in electoral systems, parliaments, local governments and community institutions;
- Promoting the rule of law and increasing access to justice by the poor through the increase in transparency, the reduction in corruption and the modernization of justice administration;

- Strengthening the relationship between the State, the market and social equity, through the strengthening of regulation and the support to the formalization of economic activities;
- And supporting public management for equity through the improvement in public spending management, the modernization of public institutions and the participation of poor beneficiaries in policy formulation.

OPTIONS FOR GOVERNMENT AND IMPLEMENTATION GUIDELINES.

The strategy for Poverty Reduction and the Promotion of Social Equity provides a framework that defines the general principles to guide the Government's priority actions.

In order to implement this strategy effectively, the activities described in the actions plans of each of the four priority areas will be implemented together with the actions defined in the crosscutting Environment Strategy. The instruments to support Government action to achieve poverty reduction will be integrated through programming processes in the country with selective criteria, taking into consideration each country's needs, the Government comparative advantages and the comparative efficacy of the various interventions.

The strategy outlines support to these key activities in the areas of:

- Research and analysis,

- Identification of best practices
- And knowledge dissemination.

The Government should seek to use the dialogue and Country Papers as focal points of the strategy and promote the development of National Poverty Reduction Strategies and Poverty Documents to reinforce the relevance of poverty reduction and social equity promotion in the documents and key actions to guide the programming activities.

GOVERNMENT MONITORING, EVALUATION, AND PERFORMANCE INDICATORS.

The strategy adopts a results-oriented approach, which implies the ability to monitor and evaluate Government's actions in the country. This task should be supported by the work currently being carried out by Government to improve the measurement of the development effectiveness of operations (i.e., consolidation of each phase of the project cycle; programming and design of projects with a goal-oriented focus; and results-based project execution). The monitoring of the strategy's implementation will be performed, in principle, through indicators to measure outputs, outcomes, and impacts.

With regard to outcome indicators, the Government will monitor the specific contribution to poverty reduction and the promotion of social equity of projects. With regard to impact indicators, the Government will monitor progress in reducing poverty and promoting social equity in the country (with indicators such as the MDGs, regional and national poverty rates measured with international 1 and 2 purchasing power parity dollar per day poverty lines, income distribution coefficients such as the Gini

coefficient and the participation of the lowest quintile in national income, among others). The evaluation of the strategy will be done five years after its approval.

PART 4: SUSTAINABLE ECONOMIC GROWTH STRATEGY

OVERVIEW

Real Gross Domestic product of Jamaica grew by 2.1 percent in 2003, the fifth consecutive year⁸ of growth. With the exception of Manufacturing and Producers of Government Services, all major production sectors registered higher levels of real value added.

GDP in Producers values at constant (1996) prices
(\$JA Millions)

1998	1999	2000	2001	2002	2003
219,491.30	221,486.00	223,245.40	226,635.00	229,195.20	234,069.70
Growth %	0.9	0.8	1.5	1.1	2.1

Source: ESSJ 2003 Pg 3.1 Table 3.1

⁸ Constant price GDP data in the ESSJ 2003 issue was based on a revision of the base year to 1996. Previous issues of the ESSJ used 1986 as a base.

GOVERNMENT'S ECONOMIC POLICY FRAMEWORK (SUMMARY)⁹

The overall framework for economic policy is governed by broad principles and strategies intended to enable private sector growth and improving the local business climate and enhancing international competitiveness. This was done by focusing on four (4) broad areas:

- Maintaining macroeconomic stability
- Implementing sector-specific structural measures, where appropriate, to facilitate orderly adjustment to changed market conditions.
- Infrastructure development; and
- Prioritizing expenditure to focus on development of human and social capital through education, health and security.

THE APPROACH

The Sustainable Economic Growth Strategy has as its objective to contribute to increase the growth rates of per capita GDP and income in Jamaica, under conditions that lead to improving the quality of life of the population, alleviating poverty, and reserving or improving the natural resource base.

This strategy has a multidimensional focus and will establish the relationships between the Government's priority areas and the general goal of sustainable economic growth.

Proposed Government's actions to foster growth should include the following lines of activity:

⁹ ESSJ 2003 Pg 3

- Strengthen the institutional foundations for macroeconomic stability;
- Improve the competitiveness of productive activities, with special emphasis on the institutional and economic environment for the strengthening of financial systems and the infrastructure sector;
- Increase the quality and coverage of education and health, to promote human capital and social development;
- Strengthen public institutions and improve democratic governance, in the context of the modernization of the State;
- And promote regional integration and improve the relative position of the countries of the region in the world economy.

Activities in all of these areas will pay particular attention to the environmental dimension, in order to ensure the sustainability of economic growth.

STRATEGY OBJECTIVE

The objective of the Sustainable Economic Growth Strategy is to contribute to increase the growth rates of per capita GDP and income in Jamaica, under conditions that lead to improving the quality of life of the population, alleviating poverty, and preserving or improving the natural resource base.

The strategy is fully consistent with the agreements of the 2002 Johannesburg Summit (that define environmental protection and social and economic development as fundamental to sustainable development); adopts a multidimensional focus, establishing relations with the priority areas of action of the Government (Competitiveness, Modernization of the

State, Social Development, and Regional Integration) and takes into account the crosscutting nature of the environmental dimension to achieve sustainable economic growth. This strategy is consistent with the Strategy for Poverty Reduction and Promotion of Social Equity, which promote the advancement of poverty alleviation through targeted actions to address its origins, and to promote inclusion and a greater social equity.

ECONOMIC GROWTH ANALYSIS

During the past decade, average annual per capita income growth in Latin American and the Caribbean was only 1.5 percent. This was the lowest performance compared to other regions, with the exception of Africa. If this rate does not improve, it will take almost a century for the region to reach the current per capita income levels of developed countries. Efforts to reduce poverty and improve social equality in the region were hampered by weak and volatile rates of economic growth, and the limited impact growth had on job creation and the incomes of lower skilled workers.

Sluggish growth was the result of several factors, including:

- The low quality of public institutions;
- Inadequate macroeconomic policies;
- Weak financial systems;
- Inadequate physical infrastructure;
- The low levels of human capital;
- And the adverse international environment.

It has also been demonstrated that, in many cases, growth was associated with the unregulated use and overexploitation of natural capital, which imposes unnecessary costs on society and compromises the foundation for future economic development. The Heads of State of the region have committed to achieve the Millennium Development Goals (MDGs), which are related to the resumption of high sustainable economic growth rates in the region. Although the MDGs do not establish a specific economic growth goal, their objectives of reducing poverty, increasing investment in human capital and improving environmental sustainability show a strong correlation with sustainable economic growth. For example, in the case of the MDG of reducing extreme poverty in half by 2015, it has been estimated that to reach the goal the average per capita growth rate in the region needs to be increased from the annual 1.5% registered over the last decade to at least 4.0% per year, assuming that no significant changes in income distribution occur. In the countries with a high incidence of poverty, the effort to promote growth needs to be even greater.

Although economic growth is the result of accumulation of factors of production and the increase in productivity of these factors, the latter more readily explains differences in economic growth. Nevertheless, both tend to be affected by common variables. Of particular importance are a society's capacity to assimilate and generate knowledge and technologies and apply them to productive activities, as well as the opportunities that enterprises and individuals have to benefit from the results of their own efforts.

Several elements simultaneously affect the productivity and accumulation of factors of production, among which the following can be highlighted:

- The importance of macroeconomic stability;
- The importance of improving the quality of public institutions since they are key to generate an organized and stable macroeconomic management, an efficient operation of the markets, and the efficiency of structural reforms to make them more flexible;
- The need to deepen financial sector reforms and to improve banking institutions, as well as their regulation and supervision mechanisms;
- The need to improve the quality and coverage of infrastructure services, which are an essential determinant of national and foreign private investment;
- The importance of increasing the region's participation in world markets through regional integration, since a dynamic export sector that takes full benefit of the region's comparative advantage is a key element to improve the possibilities of economic growth;
- The need to promote social development and enhance human and social capital, since they provide the foundations to improve labor productivity and to provide a favorable environment for productive activities;
- The need to include actions to improve productivity and the income of the poorest and excluded populations, since actions that directly benefit marginalized populations and those to promote sustainable economic development are complementary in most cases;

- And the need to ensure environmental sustainability, since it is key for the consolidation of the comparative advantages of the region, the promotion of long term productivity, and to ensure sustainable economic growth.

AREAS FOR GOVERNMENT ACTION

The Government should give priority to the following:

- (i) Strengthen the institutional foundations for macroeconomic stability;
- (ii) Improve the competitiveness of productive activities, with special emphasis on the institutional and economic environment for the strengthening of financial systems and the infrastructure sector;
- (iii) Increase the quality and coverage of education and health to promote human capital and social development;
- (iv) Strengthen public institutions and improve the political climate in order to encourage the modernization of the State; and
- (v) Promote regional integration and improve the relative position of the countries of the region in the world economy. Activities in these areas will pay particular attention to the environmental dimension, in order to ensure the sustainability of economic growth.

MACROECONOMIC STABILITY

To achieve macroeconomic stability, the Government should promote the establishment of a sound macroeconomic environment, including the fiscal, financial, and external sustainability of the economies.

There should be a focus on strengthening tax systems and improving budgetary institutions and fiscal management both at the national and sub national levels. In addition, the Government and will work in coordination with other international agencies to provide international liquidity in periods when external financial resources are temporarily scarce and to develop financial mechanisms and improvements in the international architecture that will contribute to reduce the volatility of international financial flows. Additionally, the Government should promote credit systems for exports in situations of financial and terms of trade difficulties.

COMPETITIVENESS

The Governments actions to improve Competitiveness should focus on improving the institutional and economic environment for the development of private productive activities. The Governments main contributions in this field should focus on improving the supply and facilitating access to key productive resources. To improve access to financial and capital resources, the government should promote the modernization of financial legislation and regulation; the deepening of capital markets; and the strengthening of property rights. To improve the use of human resources the Government should promote the reform of training systems; the modernization of labor legislation; and the consolidation of labor intermediation systems. To

improve the supply of infrastructure services, such as energy, transportation, and telecommunications, the government will improve regulatory frameworks; provide finance for infrastructure investments in cooperation with the private sector; and support restructuring processes and the sale of state enterprises. To promote the assimilation and development of new technologies the government should support the strengthening of science and technology institutions and intellectual property rights. The government should also emphasize the development of cooperation instruments between the public and private sectors to improve competitiveness by enabling the dialogue between these two sectors; promoting the development of national competitiveness strategies; and promoting legal, institutional and administrative reforms for the creation of enterprises and productive chains.

MODERNIZATION OF THE STATE

In the area of Modernization of the State, the Government should seek to promote a democratic, modern, and efficient State to ensure an adequate relationship between the public and private sectors, to guarantee the incentives required for economic growth. To this end, the Government should support actions to consolidate democratic systems through the modernization of representative and supervisory institutions; the improvement of decentralization processes; and the support of democratic values. To strengthen the rule of law the Government should support the modernization of the administration of justice; the updating of legislation; and the promotion of citizen safety programs. The relationship between state, market and society should be reinforced through the modernization

and support for economic regulation institutions and institutions for registry, control and supervision of private activities. Finally, support should be given to the modernization of public administration by strengthening policy formulation capacity and transparency in public spending administration, and by professionalizing public entities.

SOCIAL DEVELOPMENT

In the area of Social Development, the Government should promote the strengthening of social sectors as a necessary requirement for the promotion of economic growth. To this end the Government should emphasize actions to review, consolidate and finance education, health, and housing reforms with the objective of expanding the coverage and quality of services; and promote the adequate use of human resources in the context of the life cycle approach, improving, among others, the efficiency of social security systems. The promotion of the development of social capital to facilitate social inclusion, participation mechanisms, and the prevention of social conflicts and violence. Also promote the delivery of basic social services based on a comprehensive approach at the local level to support social and economic development.

REGIONAL INTEGRATION

Promote actions in the area of Regional Integration as an essential part of the structural reforms process and key element in promoting sustainable economic growth. Regional integration creates, among others, economies of scale; greater competition and specialization; higher productivity; diversified export experience; attraction for domestic and foreign

investment; cooperation in critical areas such as infrastructure; and deepened capital, labor, and technology markets. To this end the promotion of the expansion of markets through the elimination of tariff and non-tariff trade barriers and deviation of commerce; strengthening of the integration processes of financial services; and the consolidation of common external tariffs and customs unions. The Government should promote the development of regional infrastructure through the provision or mobilization of financing and technical assistance; the modernization and harmonization of regulatory frameworks and the support to integrated border development. The Government should also support institutional strengthening for integration and cooperation for the creation of regional public goods.

OPTIONS FOR GOVERNMENT AND IMPLEMENTATION GUIDELINES.

The Sustainable Economic Growth Strategy is a strategy that defines a framework and general principles to guide the various areas of priority action that should be supported by Government. The strategy should be implemented effectively by putting into practice the action plans for each of the four priority strategies—Competitiveness, Modernization of the State, Social Development, and Regional Integration—as well as crosscutting actions presented in the Environment Strategy. The Government instruments to support sustainable economic growth should be integrated through the programming process in the country using selective criteria, taking into account the needs of the country, the comparative advantages

of the Government and the comparative efficacy of the various possible interventions.

MONITORING, EVALUATION, AND PERFORMANCE INDICATORS

The monitoring of the strategy's implementation should be performed, in principle, through indicators to measure outputs, outcomes, and impacts. With regard to output indicators, the Government should aim to monitor the contribution of its financial operations and non-financial products intended to increase sustainable economic growth. With regard to impact indicators, the monitoring of the progress of sustainable economic growth (with macroeconomic stability and economic growth indicators including the growth rate of real GDP, per capita GDP, GDP adjusted by environmental costs, balance of payments, investment and savings levels, among others). Finally, it is important to note that the implementation of the strategy will depend on the priorities established Government, the circumstances affecting it, and the resources available. The evaluation of the strategy should be done five years after its approval.

PART 5: THE COMPETITIVNESS STRATEGY

OVERVIEW

In order to successfully integrate into the Global Village and be successful members of the emerging Network Society, Jamaica needs to consider seriously, proactive policy guidelines or as many have in other countries, we will become a statistic of the New Informationalistic Capitalism (NIC).

Research out of the International Monetary Fund (IMF), The World Bank (IBRD) and the Inter American Development Bank (IADB) to name a few, collectively speak to seven (7) guiding principles which can be applied to Jamaica successfully if the mindset in the country moves away from linear thinking to three dimensional thinking ("Out of the Box").

Principle One: Macro Economic Stability

An important **first** element in the policy mix is the need to maintain macroeconomic stability in Jamaica since this would create a business environment free of uncertainty and unanticipated costs. A 'stable' macroeconomic environment would entail low rates of inflation, lower interest rates for loans, low exchange rate variations, a reduced debt service ratio, a low fiscal deficit as a percent of GDP and balance on the balance of payment (BOP).

Principle Two: Human Resources Development

A **second** area of policy focus is in the area of human resources development (HRD) through education and training in new or frontier skills.

In a dynamic business environment, enterprises need to stay competitive by boosting the productivity of their workforce through re-training and education. Surveys of Jamaican enterprises and interviews with key informants emphasized the critical role of HRD in boosting productivity and hence competitiveness. Some efforts are being made to promote HRD in Jamaica. The HEART/NTA has been at the forefront of technical and vocational training in Jamaica. It has made information technology and entrepreneurship training mandatory in its programs. In addition, it has sought to provide a positive work attitude in its graduates and encourage them to be more entrepreneurial. While Jamaica has universal primary level education, there are still fundamental problems at the secondary and tertiary levels. The Government has introduced a reform program to enhance the quality of secondary level education and move towards its universality. At the tertiary level a recent UNDP study seriously conflicts with government's thinking and that of the hierarchy of the University Of The West Indies. Both need to converge and the starting point must be a radical curriculum change to meet the demands of the 21st century especially in the Faculty of Social Sciences.

Principle Three: Productivity Incentive Schemes

A **third** policy aspect is the development of Productivity Incentive Schemes (PIS), which would link compensation (i.e., workers' pay) to organizational productivity/performance. These schemes have been used to boost productivity/performance in organizations since they permit the distribution of any gains achieved from exceeding expected targets. The members of

the Joint Confederation of Trade Unions Of Jamaica (JCTU) have been speaking to this issue for sometime now, however, there seems to be a lack of political will to seriously implement, As such, only a few exist.

Principle Four: Social Partnership

A **fourth** policy area is the promotion of productivity and competitiveness through the establishment of social partnership involving the Government, employers and workers through their representatives.

The successful implementation of this in an evolving plantation economy like Jamaica will depend only on ALL partners pulling their weight. As such, one cannot be asking workers to freeze wages when on the other hand companies are given rate increases at three times the inflation rate, there has to be a level playing field and the promotion of the concept of the Hyper Plantation Philosophy either integrated or re organized.

Principle Five: Public Sector Reform

A **fifth** policy area is related to the reduction of bureaucratic red tape, which increases 'transaction costs' (i.e., the costs of doing business in Jamaica). The objective would be achieved through a renewed attempt at public sector reform aimed at developing new operational procedures for the approval of requests – Customs, Town and Country Planning, Ministries and the coordinating of the activities of various ministries. There has been some progress in this area but the mindset of the civil servant's resistance to the use of Information Communication Technologies (ICT) on one hand and on the other hand the attempt by the Public in some cases to beat the

system as a result of the ingrained practice of corruption are in serious conflict and need to be resolved rapidly.

Principle Six: Technological Modernization

A **sixth** policy direction is the need to provide financial and technical support for enterprises to retool and modernize their operations. Such retooling and modernization would involve the use of information technology and new machines/equipment in the production process along with the employment of bio-technological methods in the agro-processing and agricultural sector. Trinidad did this in 1970's when we were using development money for non-productive purposes, to put it euphemistically. This support would have to be carefully monitored, as past experiences in Jamaica have not been favorable.

Principle Seven: Export Marketing

A **seventh** area of policy formulation is export marketing in the context of a liberalized trading environment. Several enterprises need technical and financial assistance with the marketing of their goods and services in extra-regional markets. Such marketing actions must be formulated in the context of a new trade policy framework, which includes targeting non-traditional markets for Jamaican products. In 2005 with the advent of the Free Trade Area of the Americas (FTAA), Jamaican enterprises would have greater access to Latin American markets.

A further strengthening of Jamaica Promotions (JAMPRO) with an additional focus on South-South Trade (SST) is very important now to prepare us to take advantage of this opportunity.

Finally, a recent IDB (2002) report points to the benefits of regional integration in promoting productivity. The formation of the Caribbean Single Market and Economy can offer Jamaican firms the opportunity to realize such gains. The Government can work with enterprises in the export sector – agriculture, manufacturing, tourism – to develop a marketing strategy focusing on a selection of the key elements of competitiveness: quality, volume, product flow, price and reliability.

THE STRATEGY

The Competitiveness Strategy included in this document has as its objective to promote the sustainable development of economic activities and enhance productivity in order to attain inclusive growth.

The priority lines of action proposed by the strategy focus on correcting or compensating failures in the functioning of relevant markets for the competitiveness of all firms, and includes specific actions targeted towards micro, small and medium enterprises.

Activities to support improvements in competitiveness seek to achieve the following:

- The efficient mobilization of capital and financial resources;
- The improvement of human capital;
- The efficient provision of infrastructure services;
- The creation and assimilation of new knowledge and technologies;

- The creation of more effective institutions to support private productive activities;
- And the productive and sustainable management of natural resources.

The Government's Competitiveness Strategy should establish a framework to make improvements in their economic and institutional environments in order to promote the sustainable development of productive economic activities and increase productivity. Increases in productivity are key to economic growth and poverty reduction. In addition, progress in productivity is sustainable only if it also contributes to environmental improvements and conservation. The actions proposed by the strategy focus on correcting or compensating defects in the functioning of relevant markets for the competitiveness of all firms and include specific actions for micro and small enterprises.

LATIN AMERICA AND THE CARIBBEAN REGION COMPETITIVENESS ANALYSIS

Despite significant progress during the 1990s, the countries of Latin America and the Caribbean continue to experience serious competitiveness problems. These are reflected in the sluggish growth of per capita income during the past decade, which reached an annual rate of only 1.5 percent, a decline in the productivity of physical and human capital (factor productivity decreased at an annual rate of 2.65% and 0.62% during the eighties and nineties, respectively) and a very low ranking of the countries in the region in international competitiveness classifications, such as the World Competitiveness Report.

The reasons behind the lack of international competitiveness of the region's countries are varied; however, several factors can be shown to be particularly important.

ECONOMIC INSTABILITY

First, economic instability, which is reflected in highly volatile rates of economic growth, real exchange rates, real interest rates and domestic credit supply, and is often amplified by the procyclical character of fiscal and exchange rate policies adapted to address internal and external shocks. Macroeconomic instability has a negative impact on competitiveness because it increases uncertainty and risk, shortens investment horizons, limits the supply of credit and reduces the terms of external and domestic financing.

THE SCARCE FINANCIAL RESOURCES AND LACK OF ACCESS TO CREDIT

Second, the scarce financial resources and lack of access to credit, particularly for small businesses and independent producers, which make it difficult for them to take advantage of profitable business opportunities, reducing productivity and competitive-ness.

THE LAGS IN HUMAN CAPITAL FORMATION

Third, the lags in human capital formation that are evident in low rates of growth in education levels: the average level of education of the workforce, which rose at an annual rate of only 1.5 percent during the past decade, lags similar indicators for other groups of developing countries. These low levels of education limit the assimilation of new technologies and organizational systems, limit job mobility, and reduce productivity and competitiveness.

THE LACK OF ACCESS TO INFRASTRUCTURE

Fourth, the lack of access to infrastructure that creates a significant obstacle for the development of productive activities and business growth. Despite a decade of reforms and significant improvements in sectors such as telecommunications and, to a lesser extent, electricity, many countries find it difficult to consolidate reforms. This is also affected by international financial restrictions, macroeconomic difficulties, and institutional, technical or political problems in the development and implementation of reforms.

THE DEFICIENCIES IN PUBLIC INSTITUTIONS

And, fifth, the deficiencies in public institutions, which are, possibly, the main cause of the competitiveness problems of Latin American countries and are reflected in the absence of a stable and respected legal-judicial system, the inefficiency of some government agencies, a corruption friendly environment, the lack of coordination between the private and public sectors, and the absence of certain institutions for social protection

and the resolve of distributive conflicts. These deficiencies increase transaction costs, disincentive national and foreign private investment, redirect productive resources towards rent seeking activities, and obstruct taking advantage of investment, innovation or organization opportunities.

LESSONS LEARNED

The following are important lesson learned in formulating National Competitiveness Strategies and should be noted carefully:

- (i) The need to adopt a comprehensive focus that takes into account the multitude of factors that affect and inhibit productive activities,
- (ii) The need to have a sound and stable macroeconomic environment,
- (iii) The need to convey economic and institutional signals to stimulate innovation and productivity improvements, instead of rent-seeking activities or inefficient investment,
- (iv) The importance of improving the supervision and legal frameworks of the financial sector,
- (v) The importance of strengthening reforms in the infrastructure sector to improve efficiency and coverage in the supply of services,
- (vi) The need to promote the assimilation and generation of technology and knowledge through a system of incentives that

allows individuals, entities and businesses to benefit from their innovations,

- (vii) The need to have adequate regulatory and tax structures to encourage productive activities and competition,
- (viii) The importance of effective institutions for labor protection,
- (ix) The need to have an institutional structure to guarantee the respect and compliance of legal and regulatory frameworks,
- (x) The importance of having a supportive institutional framework for international trade opportunities,
- (xi) The importance of incorporating the private sector in the design of productive programs, and
- (xii) The need to take into consideration environmental aspects in competitiveness efforts.

AREAS FOR GOVERNMENT ACTION

Government's activities to support improvements in competitiveness will aim to achieve the following:

- A) The efficient mobilization of financial and capital resources;
- B) The improvement of human capital;
- C) The efficient provision of infrastructure services;
- D) The creation and assimilation of new knowledge and technologies;
- E) The creation of more effective institutions to support private productive activities; and

F) The productive and sustainable management of natural resources.

A. FINANCIAL AND CAPITAL RESOURCES.

Based on the Government's previous experiences, activities to promote institutions and policies to foster the efficient mobilization and use of financial and capital resources should concentrate on the following areas:

- (a) Strengthening the legal and institutional framework of the region's financial systems;
- (b) Creating financial regulation institutions;
- (c) Developing capital markets;
- (d) Improving property rights, specially rights to land and housing, which are particularly important for the poor; and
- (e) Developing micro credit systems and alternative institutions to broaden the access to credit.

B. HUMAN RESOURCES: LABOR TRAINING, LEGISLATION AND INTERMEDIATION.

With regards to education and training, hiring of labor and collective bargaining, and with the objective to promote policies and institutions to improve human capital and utilize a more efficient use of human re-sources (besides the reform of the education sector to improve coverage and efficiency, which is covered in the Social Development Strategy), the Government should focus on:

- (a) Reform of labor training systems;
- (b) Promotion of mechanisms for training entrepreneurs and workers, in order to strengthen micro, small and medium-sized enterprises;
- (c) Modernization of labor and collective bargaining legislation;
- (d) Strengthening of systems of labor intermediation to facilitate job seeking and identification of employment opportunities.

C. INFRASTRUCTURE

To promote policies and institutions that support the adequate provision of infrastructure in energy, telecommunications, transportation, water and sanitation, the Government should undertake activities to:

- (a) Improve regulatory and legal structures and strengthen regulatory and market organizations that deal with the provision of infrastructure services;
- (b) Finance infrastructure investment;
- (c)** Broaden coverage for underserved populations; and
- (d)** Support restructuring processes and the divestiture of state-owned enterprises.

D. PRODUCTIVE TECHNOLOGIES.

Given the importance of technology innovation for competitiveness, the Government should promote policies and institutions for knowledge

creation and dissemination of new productive technologies in the country paying special attention to:

- (a) Diagnosis of the deficiencies in innovation systems;
- (b) Strengthening institutions that generate science and technology;
- (c) Strengthening intellectual property rights; and
- (d) Speeding up technological improvement in small enterprises and poor producers.

E. COOPERATION FOR COMPETITIVENESS

The modernization of public administration can make an important contribution to increase competitiveness for the countries of the region. Thus, the Government should encourage effective public institutions to support private productive activities. The Strategy for the Modernization of the State includes various activities related to enhancing the transparency and efficiency of public entities and the defense of consumer rights. This strategy only takes into consideration the strengthening or creation of institutions that are directly related to expanding competitiveness, including:

- (a) Cooperation between the private and public sectors to strengthen competitiveness, aiming at Government to act as a catalyst and supporter of processes of dialogue that improve the environment for productive activities; and
- (b) Promotion of corporate social responsibility given that it can generate increases in firm productivity and benefits for its various stake-holders.

F. NATURAL CAPITAL

The Government should understand and recognize that advances in competitiveness also depend on the development of institutions, markets and services that will result in the sustainable use of natural resources as well as environmental improvements. Consequently, the Government should promote the sustainable management and preservation of the natural capital of the country through:

- (a) Actions to preserve the productive value of natural resources;
- (b) Actions to promote the adoption of clean production processes and private participation in the development of new markets for environmental services; and
- (c) Actions to capitalize on global and regional opportunities. The Environment Strategy sets forth actions that link competitiveness and sustainable natural re-sources management to make them operational.

OPTIONS FOR GOVERNMENT AND IMPLEMENTATION GUIDELINES

The focus for addressing competitiveness problems should be comprehensive regard-less of whether the programs and projects are local, national or regional in nature or whether they target specific groups or productive activities.

Priority should be given to the design of competitiveness programs that envision actions to increase the assets of the poor as well as the productive capacity of their economic activities and their access to markets and productive resources, goods and services.

In order to increase the effectiveness of its contributions to enhancing competitiveness, the Government should identify programming priorities and actions to improve the design quality of programs and their successful execution. The Government should prepare diagnostic studies to identify the main obstacles to improved competitiveness and growth. The Government should also seek consensus in the design and implementation of competitiveness programs, taking into account lessons learned and research in this area. As a result, it should pay special attention to monitoring and evaluating the impact of programs to improve competitiveness in order to identify best practices and lessons for the design of subsequent programs.

For example, National Competitiveness Councils have already been established in 11 countries in the Latin America and Caribbean region. The aim of these efforts will be to identify competitiveness and business development priorities and strategies that will serve as an input to the country programming process. Jamaica could examine this model.

MONITORING, EVALUATION, AND PERFORMANCE INDICATORS

The strategy adopts a results-oriented approach, which implies the ability to monitor and evaluate Government's actions in the country. This task should be supported by the work currently being carried out by the Government to improve the measurement of the development effectiveness of operations (i.e., consolidation of each phase of the project cycle; programming and design of projects with a goal-oriented focus; and results-based project execution). The monitoring and evaluation of the strategy's implementation should be performed, in principle, through indicators to measure outputs, outcomes, and impacts. Specifically, output indicators include the incorporation of competitiveness issues into country strategy papers and support to the elaboration of National Competitiveness Strategies according to country demand. With regard to outcome indicators, Government should aim to monitor the contribution of its financial operations and non-financial products intended to increase competitiveness. With regard to impact indicators, the Government should monitor the desirable progress in competitiveness (with macroeconomic stability indicators, general infrastructure, innovation and diffusion of technology, among others). Finally, it is important to note that the implementation of the strategy will depend on the priorities established in the country, the circumstances affecting the country, and the resources available. The strategy will be evaluated five years after its approval.

PART 6: THE MODERNIZATION OF THE STATE STRATEGY

OVERVIEW

The Government of Jamaica in its **Public Sector Modernisation Vision And Strategy 2002-2012(Ministry Paper 56/02)**, addresses this in part as follows:

A VISION FOR ALL TO SEE

An open and impartial public service, which puts the public's interests first and in which valued and respected professionals deliver high quality services efficiently and effectively.

STRATEGIC OBJECTIVES

Nine key strategic objectives were identified:

1. To confirm the role and core functions of Government.
2. To improve the ways in which Jamaica is governed, through sharing the exercise of power and increasing participation in decision-making.
3. To promote effective management, through appropriate mechanisms that expressly reflect the government's priorities.
4. To re-affirm the values of the public service, stressing integrity, objectivity and accountability.
5. To deliver high quality services to users at reasonable cost
6. To deliver high quality policy advice to the government

7. To secure performance improvements through the establishment of a performance culture in the public service.
8. To value public servants and make sure that they are both motivated and properly equipped to meet these challenges.
9. To manage all the resources in the public sector to achieve best value for money in the delivery of services.

There was also a commitment to creating a society on the principles of justice and equity by:

1. Creating a social and legal framework in which, business – corporate and individual enterprise - can flourish;
2. Devising and managing a social safety net for the very poor and groups at greatest risk, creating a framework for breaking the cycle of persistent poverty;
3. Establishing a knowledge society, providing timely and accessible information in support of enhanced service delivery.

FOCAL POINTS FOR IMPROVEMENT

POLICY-MAKING

Modern policy-making should be evidence based and address the impact of policies, their cost, and sustainability, both in terms of cost and relevance over time. Policymaking should be as thus:

1. Results oriented, evidence based, and forward looking.
2. Outward looking and instructive.
3. Innovative, flexible and creative.
4. Inclusive

5. Joined up: sectoral policies will
6. Reviewed and evaluated

ORGANISATIONAL STRUCTURES

Ministry paper 56/02 states a commitment to the continuation of the introduction of new structures into the public sector as follows:

SYSTEMS

The Government proposes to change organisational and business systems - the ways in which people work in the public sector.

HUMAN RESOURCES

The Government proposes to undertake the human resource development of public servants.

TECHNOLOGY

The assurance that the Public Service has the modern technology available to make well-informed and timely decisions.

ICT (Information Communication Technologies) to provide the public with greater access to government information, and progressively, more direct service delivery. Through ICT, the Government will offer single points of access to multiple or related transactions with the state.

APPROACH

The Modernization of the State should have as its objective to establish the basic concepts that should guide operations with regards to reform and

modernization of the State, as well as the development of democratic governance.

Sustainable and equitable development requires a democratic, modern and efficient State, that promotes economic growth; provides a regulatory framework that is conducive to the functioning of markets; guarantees a stable and reliable macroeconomic environment, legal predictability and public security; is capable of adopting appropriate economic and social policies for poverty reduction and environmental protection; and implements these policies in an efficient, transparent and responsible manner.

In order to achieve these goals, the priority lines for Government action should be the following:

1. Consolidation of democratic governance;
2. Expansion of the rule of law and judicial reform;
3. Improving the relationship between the State, the market and society; and enhancing public management.

THE STRATEGY

This strategy sees the **Modernization of the State** as synonymous with state reform for the consolidation of democratic governance. This option is justified by the growing accumulation of academic thought and wide empirical evidence that shows that sustainable and equitable development

requires a democratic, modern and efficient state that promotes economic growth, providing a regulatory framework that is conducive to:

1. The functioning of markets; guarantees a stable and reliable macroeconomic environment, legal predictability and political security;
2. Is capable of adopting appropriate economic and social policies for poverty reduction and environmental protection;
3. And that implements these policies in an efficient, transparent and responsible manner.

LATIN AMERICAN AND CARIBBEAN REGION ANALYSIS

OVERVIEW

In the region, there has historically existed a deficient relationship between the state and the market on one hand, and the state and citizens on the other, which has resulted in an erosion of the possibilities for a sustainable and equitable development. In fact, from a historic perspective it is clear, with differences between countries, that there has been a “democratic deficit” that on occasion has been expressed in the phenomena of authoritarianism, clientelism, populism, corruption, and the “capture” of institutions and public policies by particular interests. These political system features have resulted in state actions that discourage efficient market functioning and instead promote rent seeking and speculation. At the same time, these aforementioned phenomena have contributed to a policy-making process in which the resulting policies do not reflect the processing

and aggregation of the demands of the majority of citizens but rather lead to the exclusion of broad sectors of society from the benefits of growth.

POSITIVE DEVELOPMENTS

In the last few decades, positive tendencies have been affirmed. Democratic governments have been established in the region, which has implied significant improvements in terms of the protection of human rights, freedom of expression, exercise of individual political freedoms and the widening of opportunities for citizen participation in public decision-making. Accompanying this progress with regards to political freedom and

the protection of human rights, in the region as a whole there have been very important efforts achieved to consolidate the rule of law and the independence between different branches of the state. At the same time, important reforms have been adopted to improve the regulatory capacity of the state, provide technical capacity and professional independence to the macroeconomic management and supervisory and regulatory agencies, transfer to the market a set of productive activities, open economies and improve the process of formulating and implementing public policies in the different fields. For the most part, the region has moved toward an improved legal and political environment that is more secure and predictable.

DEVELOPMENT CHALLENGES

In some countries the following challenges have been encountered:

1. Delays, independence, reliability and access to the judicial system;
2. Low levels of credibility in the representative institutions such as parliaments and political parties;
3. Weaknesses in the administrative and in the supervisory and control agencies;
4. Administrative and fiscal disfunctionalities in the decentralization process;
5. High indicators of perceived levels of corruption, and an environment of citizen insecurity that imposes high human, economic and social costs.

PAST EXPERIENCES TO LEARN FROM

From the experiences in the region a set of lessons has been gleaned that are as much related to the conceptual framework of state reform as to the design and execution of operations. Among the former, the following stand out:

- i) To conceive reform and modernization of the State as part of a political reform process oriented toward consolidating the rule of law and democratic governance and subordinate, therefore, the organizational designs of management and procedures to this objective;

- ii) Consider that there is a reciprocal and complementary relationship between state reform on one hand, and the strengthening of civil society and market expansion on the other.

With regards to the lessons related to project design and execution, it is important to emphasize:

- i) Having a comprehensive and long-term conceptualization of the reform process, but to be selective and gradual in project identification;
- ii) Ensuring a solid political consensus centered around the reform process;
- iii) Paying special attention to the particularities in the political-institutional environment in each country; and
- iv) Adopting flexible designs that permit adaptation when faced with changing situations.

AREAS FOR GOVERNMENT ACTION

This strategy identifies four priority areas for Government action; these action areas are not identified with specific institutions or determined branches of the state. Rather, a crosscutting definition is opted for, based on thematic objectives, whose achievement requires a more systematic and integrated logical and long-term development planning.

This approach is justified for two reasons:

- i) Because the larger objectives of sustainable economic growth and the fight against poverty and the promotion of social equity have an essentially transversal character.
- ii) Institutional weaknesses also have marked cross cutting characteristics that have blocked the efforts of the countries like Jamaica to achieve these larger objectives, such as the deficit of legal predictability, corruption, insufficient protection of rights and freedoms, gender as well as other types of discrimination, weaknesses in macroeconomic management and other public policies and the limited capacity for regulation and supervision, among others. As a result, priorities should be established according to integrated goals for institutional development whose achievement involves different branches of the state, together with civil society and markets.

The following areas for action should be considered by the Government of Jamaica:

- 1) Democratic System;
- 2) Rule of Law and Judicial Reform;
- 3) State, Market and Society;
- 4) And Public Management. For each of these areas, spheres of action are identified in which specific actions are suggested.

DEMOCRATIC SYSTEM

The achievement of sustainable and equitable growth in Jamaica should aim to attain two interdependent objectives at the same time:

- i) On the one hand, a greater political democratic stability and,
- ii) On the other, greater political inclusion that allows for an effective representation of large sectors of the population that are presently excluded or unequally represented.

The strengthening of the democratic system therefore is crucial for the efforts of development. In this area the following spheres of action have been identified:

- a) Strengthen the institutional capacity of the legislative branch and their support to the definition of policies for poverty alleviation;
- b) Modernize the electoral and political party system and promote greater inclusivity in the political system;
- c) Increase the neutrality and objectivity of public administration;
- d) Strengthen inspection, oversight and supervisory agencies;
- e) Support the processes of political-administrative decentralization and democratization of Local Governments;
- f) Promote the participation of citizens through representative institutions in the design and implementation of public policies;
- g) And promote the democratic culture of citizens.

RULE OF LAW AND JUSTICE REFORM

In order to develop sustainable and equitable growth, legal predictability with regards to goods, contracts and obligations, access to justice for the entire population and the equality before the law of all citizens is necessary. Without a solid rule of law, it is difficult to have an efficient market economy. At the same time, while the lack of legal predictability affects the whole population, it affects in a relatively greater manner the poor. Government action in this area should be targeted toward developing a justice system that is independent, efficient, reliable, agile and accessible. In this regard, programs and actions should be promoted to:

- a) Support the independence of the judicial branch;
- b) Widen access to justice as an essential mechanism to reduce the factors of social exclusion and transaction costs;
- c) Strengthen the capacity of the judicial system in the fight against corruption;
- d) Develop modern systems of management and administration of institutions and judicial processes;
- e) Establish alternative conflict resolution methods;
- f) Update the substantive legislative and procedural framework;
- g) And protect citizen security and ensure the legal control of the use of force.

STATE, MARKET AND SOCIETY:

The development of wider and more dynamic markets, that favor the inclusion of presently excluded sectors, but that are also more efficient and capable of competing in the global economy, requires that state action be conducive to an effective interaction among economic and social actors.

The areas identified in this field are:

- a) Support the professionalism of the economic management institutions;
- b) Strengthen economic and social regulation institutions and the processes to protect consumers;
- c) Support institutions that design and promote active and inclusive development policies;
- d) Promote the establishment of socio-economic partnership instruments;
- e) And improve institutions for environmental governance.

PUBLIC MANAGEMENT

A sustainable and equitable development also depends on the quality and efficiency of policies and public management. On occasion, well-conceived strategies and policies fail to achieve their objectives as a result of deficiencies in the state's administrative apparatus and in the management of the same. In this field the following areas for Government action have been identified:

- a) Develop and strengthen civil service systems under criteria of merit and flexibility;

- b) Strengthen the fiscal capacity of the state and improve efficiency and transparency in expenditure management;
- c) Improve the capacity for coordination of strategies and public policies, especially those that fight poverty;
- d) Modernize public services management; and
- e) Use the potential of the knowledge and information technologies in public management.

OPTIONS FOR GOVERNMENT AND IMPLEMENTATION GUIDELINES

For the implementation of the strategy, a set of actions has been proposed whose general objective is to strengthen the relationship between the priorities and criteria contained in the strategy and the Government programming exercises in Jamaica. In particular, the carrying out of activities such as the diagnostic of institutional capacity, the incorporation of the results of these diagnostics in the country strategies, the formulation of operational guidelines for each of the action areas identified in the strategy, is of paramount importance.

CARIBBEAN SINGLE MARKET AND ECONOMY (CSME)

In the context of the Caribbean Single Market And Economy (CSME), a Regional Policy Dialogue on Reform and Modernization of the State should be seriously considered. This would be done amongst the pioneers of the formation countries of the CSME, Jamaica, Barbados and Jamaica in early 2005.

MONITORING, EVALUATION, AND PERFORMANCE INDICATORS

The monitoring and evaluation of the implementation of this strategy should be carried out through output, outcome and impact indicators.

The outcome indicators will come from the project evaluations. With regards to the impact indicators, it is advised that they comply with criteria of relevance, political acceptability and objectivity so that they can be applied with greater precision in the diagnostic studies and strategies to improve democratic governance. Finally it is pointed out that monitoring and evaluation are fundamental instruments for the implementation of the strategy and in the specific operations that are formulated accordingly.

The evaluation of the strategy will be carried out five years after its approval.

PART 7: THE REGIONAL INTEGRATION STRATEGY

OVERVIEW

In early 2005, The Caribbean Single Market And Economy initiative will be inaugurated initially with three (3) Caribbean countries, Jamaica, Barbados And Trinidad and Tobago.

WHAT IS A CARICOM SINGLE MARKET?

It is an arrangement, which allows CARICOM goods, services, people and capital to move throughout the Caribbean Community without tariffs and without restrictions to achieve a single large economic space, and to provide for a common Economic and Trade Policy.

WHAT IS A CARICOM SINGLE ECONOMY?

A CARICOM Single Economy is an arrangement, which further harmonises economic, monetary and fiscal policies and measures across all Member States of the Caribbean Community to underpin the sustainable development of the Region. This would mean the coordination of foreign exchange and interest rate policies, the harmonisation of tax regimes and

of laws and the convergence of economic performance among other measures.

WHY THE SINGLE MARKET?

There is more economic and political strength from a grouping of 15 countries as against the strength of a single country.

The small states of the Caribbean face better prospects within the CARICOM grouping than they do if they face mega blocs and superpowers across the negotiating tables individually.

The Single Market and economy creates more opportunities for employment, investment, production and trade for the inhabitants of the Caribbean Community.

HOW WILL THE CARICOM SINGLE MARKET AND ECONOMY BE IMPLEMENTED?

(a) By amending the Treaty which established the Caribbean Community (the Treaty of Chaguaramas)

(b) By modification of the national laws, policies and programmes of Member States to accommodate these and other decisions made at the regional level

(c) By active interest in and participation of the Region's people in the CARICOM Single Market and Economy.

The Treaty is being amended by way of Protocols. There are nine Protocols:

Protocol I addresses Organs, Institutions, Procedures of the Community

Protocol II addresses Right of Establishment. The Right to provide Services and the Right to move Capital by any CARICOM national in the Community, which has been defined to include the Single Market and Economy

Protocol III address the Community Industrial Policy

Protocol IV addresses Trade Liberalization

Protocol V addresses the Community Agricultural Policy

Protocol VI addresses the Community Transport Policy

Protocol VII addresses Disadvantaged Countries, Regions and Sectors

Protocol VIII addresses Disputes Settlement

Protocol IX addresses Rules of Competition.

THE APPROACH

Regional integration is a policy instrument for achieving a set of development goals and objectives. The main goal of the Strategy is to guide Government support for the creation of regional public goods, specifically regional integration and trade and regional cooperation, in order to promote sustainable economic growth and poverty reduction.

Regional integration offers scope for many critical actions, but within these options, the strategy establishes priorities that will allow the Government to maximize its comparative advantage. Specifically, the priority lines of action should be the following the following:

1. Consolidating regional markets in the context of an overall opening to the world trading system;
2. Promoting regional infrastructure;
3. Strengthening institutions for integration;

4. And developing other regional public goods.

THE STRATEGY

The main goal of this integration strategy is to guide Government support for the creation of regional public goods, specifically regional integration and regional cooperation, aiming at taking advantage of the globalization process in order to promote sustainable economic growth and poverty reduction. The actions proposed herein arise from an analysis of the achievements and shortcomings of regional integration and cooperation.

LATIN AMERICA AND THE CARIBBEAN REGION

Globalization and liberalization have been driving the integration of the global economy. Since 1990, the advance of integration in Latin America and the Caribbean (LAC) has created policy space in which to manage globalization and use it to foster development. Almost 30 preferential trade liberalization agreements have been signed, and several of them have moved to the more complex "second generation" stage. Additionally, LAC countries have turned their attention to "North-South" accords with industrialized nations – in the Free Trade Area of the Americas (FTAA), with the European Union (EU) and in the multilateral context of the World Trade Organization (WTO).

The main constraints include:

- (i) The persistence of non-tariff barriers;
- (ii) Perforations of common external tariffs and failure to complete customs unions;
- (iii) Slow progress on instituting "second generation" protocols;
- (iv) Inadequate regional infrastructure;

- (v) Weaknesses in the regional institutional apparatus (and in the national counterparts);
- (vi) Unfinished structural reforms;
- (vii) Scant coordination of macroeconomic and sector policies, as well as tax systems that do not work for integrated markets and fail to stimulate external trade and investment;
- (viii) No mechanisms to promote socioeconomic development that would compensate for asymmetries in the distribution of integration's benefits; and
- (ix) International barriers to exports.

The Government should support efforts to:

- (a) Evaluate the costs and benefits of protection, integration, and liberalization, and its impact on economic growth, equity and poverty reduction;
- (b) Enforce rules that foster trade and investment in the regional marketplace, remove remaining non-tariff barriers, and engage in the formation of customs unions;
- (c) Liberalize services trade, especially assessments of alternatives and actions to facilitate trade in financial services;
- (d) And help strengthen capacity to formulate positions in North-South and other initiatives and in multilateral fora.

PROMOTING REGIONAL INFRASTRUCTURE

How far integration processes can go depends in large measure on increases in trade and investment among the participating countries. However, unless the present infrastructure is augmented, countries may be unable to follow through on their market liberalization plans. The Government should concentrate on:

- (a) Support for national infrastructure that includes the regional dimension and leveraging funds from the private sector and other sources; and
- (b) Regional infrastructure programs' air and maritime transport, energy, communications, and borders.

In those spheres the Government should focus on:

- (a) Coordination of sector regulatory standards;
- (b) Selection, evaluation and prioritization of transnational projects, taking into account its impact on economic growth and poverty reduction;
- (c) Financial mechanisms that attenuate cost and benefit asymmetries between countries;
- (d) Mobilization of local and international capital markets;
- (e) Facilitation of private sector participation;
- (f) Inclusion of environmental and local-development impact criteria in infrastructure projects;
- (g) Collaboration with other regional institutions to deliver technical and financial support;

- (h) And support for consultations with civil society and the private sector.

STRENGTHENING INSTITUTIONS FOR INTEGRATION.

At the national level, the Government should:

- (a) Support training to develop the expertise required to manage negotiations and implement agreements and help enable public bodies to devise policies that mitigate the adverse effects of freer trade on certain sectors, regions, and groups;
- (b) Support efforts to improve financial institutions and products and institute effective financial inter-mediation systems;
- (c) And pursue customs facilitation initiatives that promote harmonization of procedures and help countries adjust their tax systems to make them more consistent with greater trade and investment flows, and with international practices.

At the regional level, the Government should:

- (d) Pay special attention to institutions responsible for dispute settlement, contingent protection, technical standards and competition policies, as well as technical secretariats;
- (e) Advance macroeconomic policy coordination through discussion fora and studies, and support mechanisms that incorporate a regional dimension into national authorities' macroeconomic targets, finance seminars and studies to assess alternative approaches to tax policy harmonization, and support efforts to minimize the risk of investment-related "incentives wars", and sector policy co-ordination to facilitate production chains;

- (f) Assist the development of disaggregated data-bases that are cross-country consistent in key areas for integration;
- (g) And provide support for the FTAA negotiations and the FTAA Hemispheric Cooperation Program, other plurilateral North-South integration initiatives, and WTO training courses.

OTHER REGIONAL PUBLIC GOODS

The Government should focus on efforts to:

- (a) Implement regional codes and standards in areas such as environmental and health;
- (b) Ensure biodiversity protection and careful stewardship of areas providing environmental services;
- (c) Coordinate regional action on migration, technology cooperation, disease control, and natural disaster prevention and mitigation, and to promote the integrated development of border regions;
- (d) Improve the oversight of banks and other financial intermediaries;
- (e) Bring together senior officials to exchange ideas about best practices and cooperation; and
- (f) Support regional public goods that contribute to sustainable economic growth and to reduce poverty and inequality.

MONITORING, EVALUATION, AND PERFORMANCE INDICATORS

This strategy aims at achieving results. In order to monitor its fulfillment it is necessary to evaluate the proposed actions, goals that will be supported by actions designed to improve development effectiveness. These tasks will use output, outcome and impact indicators. The implementation of this strategy will greatly depend upon the priorities, particular circumstances and resources of the region's countries.

An evaluation of the strategy will be carried out three years after its approval.

PART 8: JAMAICAN DEVELOPMENT ISSUES

FISCAL POLICY UNDER ACCRUAL BUDGETING

...The government intends to advance reforms in the public expenditure management system over the medium term. The plan for the current year is to extend modernization measures implemented in the pilot ministries to the rest of the central government. These measures aim at establishing output-based budgeting, and linking salary increases to performance by the end of this fiscal year, and moving toward **accrual accounting** over a three-year period. In addition, the authorities plan further to strengthen the cash management system.

Jamaica: 2004 Article IV Consultation

Overview

The Government of Jamaica is in the process of a phased shift from cash to full accrual budgeting. Historically cash accounting, with its embodiment in domestic legislation and international guidelines, has underpinned the production of public accounts. In recent times, however, the Government has given greater attention to developing more business-like reporting within the public sector. These changes do not affect the Government's fiscal objectives or strategy, but they do require some changes in measurement and terminology.

The move from cash to accrual budgeting is an important step in the Government's reform program to develop more business-like reporting for the public sector that accounts for the full cost of service delivery and incorporates a 'whole of government' approach.

The fundamental distinction between the two forms of accounting centers on timing — cash accounting records the transaction when cash is exchanged, whereas accrual indicators record a financial flow at the time

economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at the time. In practice, this means that non-cash items such as accruing superannuation liabilities and depreciation will now be regularly incorporated in the production of public accounts.

The transition to an accrual accounting framework does not change the objectives of fiscal policy. It will, however, be necessary to express the fiscal strategy and associated targets in accrual budgeting terms. The Government is pursuing a medium-term fiscal objective of achieving underlying cash balance on average over the economic cycle. Following the introduction of accrual accounting, the Government will aim to achieve fiscal balance — the accrual counterpart of the underlying cash balance — on average over the economic cycle. The fiscal balance, like the underlying cash balance, measures the Government's contribution to net lending (the national investment-saving imbalance) and hence to the external current account balance. The fiscal balance is an aggregate in the Government Finance Statistics (GFS) operating statement. It can also be derived from an accounting standard operating result by making two adjustments for economic revaluations and capital.

The main advantage of accrual measures (as opposed to cash) is that they provide a more comprehensive indication of the total activity of Government and the long-term effects of current policy. Cash measures do, however, have some advantages for tracking expenditures in a fiscal year and helping to identify the short-term effect of fiscal policy on the economy. Consequently, cash indicators for the headline and the underlying balance will continue to be produced.

The move to accrual budgeting will result in several presentational changes. First, budget reporting will adopt a consolidated framework by

shifting from budget sector to general government reporting. Second, as part of the Budget process, consistent with both accounting and Government Finance Statistic and the International Monetary Fund (IMF) requirements, the Government will produce a complete set of accrual statements, including:

- an operating statement;
- a statement of assets and liabilities; and
- a statement of cash flows.

Thirdly, to promote greater efficiency in the management of its assets, the Government will produce a capital budget statement that will account for all capital expenditure and funding.

Taken together, this series of reforms should contribute towards more transparent and informative public accounts and greater efficiency in the management of public resources.

While the fiscal balance is the accrual counterpart of the underlying cash balance, there will be differences as to when transactions are recorded on an accrual and a cash basis, with the result that the fiscal balance may differ from the underlying cash balance in a given period. Some company tax liabilities will be brought forward with the pay-as-you-go (PAYG) arrangements but certain tax installments (cash payments) will be deferred and paid in latter years. The bringing forward of tax liabilities will be reflected in accrual revenues, but they will not be recorded in cash revenues until the tax installments are paid. These timing differences will result in a sizeable divergence between the fiscal balance and underlying cash balance.

While unrelated to the movement to an accrual budget, another important change in the Budget is the treatment of Public Trading Enterprises (PTEs) superannuation liabilities. The Government still makes superannuation payments to current and former employees of PTEs who were once employees within the general government sector. These payments have previously been treated as financing transactions and have therefore had no impact on the budget cash balances. However, consistent with changes to the National Accounts in line with international statistical standards, onwards, these payments will be effectively treated as budget outlays with the result that they will be recorded in (reduce) the underlying and headline cash balances.

MAJOR DIFFERENCES BETWEEN CASH ACCOUNTING AND ACCRUAL ACCOUNTING

TIMING OF TRANSACTIONS

Under a cash system, transactions are recorded in the reporting period in which cash changes hands. An accrual system records transactions in the period in which income is earned or expenses incurred, subject to the important caveat that the transactions are able to be reliably measured at that time. Effectively, assets, liabilities, revenues and expenses arising from transactions or other events must be recognised in the financial statements when they have an economic impact on the government, regardless of when the associated cash flows occur.

When applied to the Government, accrual reporting will cover some significant financial items that are not included in cash-based statistics because they do not have an associated cash flow. The major differences between cash budgeting and the accrual framework are outlined below.

SUPERANNUATION

Accrual budgeting will record the accruing superannuation expense whether the liability is funded or unfunded. The superannuation expense in the operating statement, in a given year, is equal to the superannuation accruing to current employees as well as the interest or growth on the outstanding liability. In calculating changes in the stock of unfunded superannuation liabilities, the actuary takes into account the number of salary earners and assumptions relating to wages growth, inflation and the expected rate of return on investment.

PUBLIC DEBT INTEREST (PDI)

Under cash accounting, PDI is recorded as the interest paid during the year. Under an accrual approach, allowance is also made for interest accrued, but not actually paid, during the period.

A further difference between cash and accrual accounting for PDI concerns the treatment of premia and discounts when debt is issued or when it is repurchased.

TAXATION REVENUE

The preparation of accrual estimates requires a conceptually consistent and reliable method of recognising when taxation revenue accrues to the Government.

The Government could record an accrual of revenue at the time that economic transactions, resulting in a taxation liability, took place. It is very difficult, however, to know when all such transactions take place. As a result, at this stage revenue will be recognised as accruing at the time the relevant tax law indicates the existence of a requirement to pay an amount

in tax or when a tax liability assessment is raised That is, revenue is only recognised when the taxpayer makes a self-assessment or the Tax authorities issues an assessment.

In effect only two changes to current cash estimates are required. These are adjustments for receivables, and for bad and doubtful debts.

1. The adjustment for receivables recognises revenue for which an assessment has been issued but which has not yet been received and excludes cash received which has already been accounted for in receivables (because it accrued in a previous reporting period).
2. The adjustment for bad and doubtful debts allows for the fact that some accounts receivable are never paid and are eventually written off. At the end of each financial year tax receivables that are likely to become uncollectable are brought to account and expensed to the year just finishing. In this way expenses are matched to the period in which they were incurred.

CAPITAL

Accrual accounting records capital use (depreciation) in the operating statement, whereas cash accounting records capital expenditure. However, the Government's primary fiscal target — fiscal balance — will continue to record capital expenditure instead of depreciation. This treatment is necessary because the fiscal balance is intended to measure net lending, or the difference between saving and investment expenditure. Therefore the fiscal balance detects the cash 'investment' in a given year, not the capital used. The cash flow statement will outline most capital expenditure in purchase of property, plant and equipment, and intangibles while total capital expenditure will be published in the Government's capital budget statement.

Politicians (Members Of Parliament and Senators) the 81 members of the House will have to be put through extensive and intensive seminars to facilitate continued effective representation to the people with regards to these budget changes and the new interpretations required.

INCREASING THE AGE OF CONSENT

I listened to Parliamentarians in Jamaica speaking to the issue **once again** of increasing the age of consent to 18. Their arguments are interesting, but young people worldwide in developing and developed countries are calling for the voting age to be reduced from 18 to 16 (clearly the Parliamentarians in Jamaica are national thinkers and not global thinking, But, what is more disconcerting is that young political leaders claiming to REPRESENT the youth of this country are rubber stamping their party elders without doing the research).

They outline 10 reasons for this:

- 1) Youth suffer under a double standard of having adult responsibilities but not rights.
- 2) Youth have a unique perspective; they will never have those experiences again.
- 3) Sixteen is a better age to introduce voting than 18; 16-year-olds are stationary.
- 4) Lowering the voter age will increase voter turnout.

- 5) Youth pay taxes and live under laws. They should vote.
- 6) Politicians will represent their interests if youth can vote.
- 7) If we let stupid adults vote why not let smart youth vote?
- 8) Youth will vote well.
- 9) There are no wrong votes.
- 10) Lowering the voting age will provide an intrinsic benefit to the lives of youth.

Those who have responsibility for youth leadership and youth political leadership in Jamaica need to consider seriously these 10 points. The debate continues.

BANKING ON MUSICAL HITS

The recording industry is one of Jamaica's biggest and most culturally significant industries, and lies at the heart of Jamaica popular culture. It is also a great economic success story. The Government needs to have a greater understanding of the importance of the industry, and show greater commitment to helping the industry realise its potential for continued growth and prosperity.

Over 90% of music businesses in Jamaica are SMEs. They face distinct problems, which hinder their ability to grow.

The main concern of the group was the problem many SMEs face in accessing finance to fund start-ups or to fund second stage growth. The

group identified problems on both the demand side and the supply side, but felt more work was needed to identify the precise nature of the problems and suggest ways in which they can be overcome.

Despite the wealth of anecdotal evidence in this area, there has been little or no published research available to date.

The anecdotal evidence suggested that music companies were not aware of the range of funding opportunities available, and possibly lacked the necessary business skills to access these funds successfully, and that the banking community has insufficient understanding of the music business and other creative industries for whom royalty income is critically important. In particular there was a concern that banks might find it difficult to reconcile their desire for a guaranteed rate of return, with a perception of the music business as being inherently high risk.

There was also a concern within the music industry that Government funded support for SMEs had been largely designed with manufacturing business in mind.

Whilst small music businesses are similar in many respects to other small creative businesses, there are important differences which give rise to unique problems in raising finance, and contribute towards a 'funding dilemma' for Jamaica's music businesses.

Difficulties in raising finance are affecting the ability of the music business to grow and prosper in Jamaica.

Recommendations:

- 1) More effort should be spent in improving the level of 'understanding' between the music industry and finance-providers. This is particularly important at bank branch level where industry specific information could be cascaded down from regional or head office. The industry could consider

developing and promoting a training seminar 'roadshow' that targeted banks at a regional level.

2) Regional finance initiatives, such as Local Authority loans, Enterprise Agency initiatives and Community Finance Initiatives could be better publicised within the industry.

3) New financial instruments, including micro-credit, social credit, organisational credit and Local Exchange Trading Systems (LETS) schemes should be encouraged.

4) Government/industry support could be channeled towards piloting of music industry incubator units, which benefit from an entrepreneurial learning environment, access to mentors and investors and visibility in the market place.

5) Appropriate support structures should be put in place to help music entrepreneurs to become 'investment ready'. A music industry CD Rom/video could be produced to foster best practice in music management.

6) There is a need to disseminate up-to-date and accurate risk/reward data about the music industry. Music management role models need to be identified and publicised as examples of best practice.

7) Strategic alliances within the industry, such as between industry sector trade associations, other industry bodies and the Small Business Service should be promoted.

8) The public face of the industry should be coordinated through one central gateway.

CAN JAMAICA LEARN FROM THE ASIAN ECONOMIC EXPERIENCE?

"..... What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere."

Anne O. Krueger, First Deputy Managing Director, International Monetary Fund
At the Harvard Project for Asian and International Relations (HPAIR), Business Conference
Shanghai, China, August 21, 2004

Prime Minister P J Patterson is very upbeat about the Jamaican economy and its potential for growth. In his last address to the nation, the prime minister enumerated many positives and entreated members of the private sector, as well as the small business sector, to take advantage of current investment opportunities.

The parties to the Memorandum of Understanding (MOU) between the government and the Jamaica Confederation of Trade Unions (JCTU), which was signed on February 16, will now have to undertake the challenging task of meeting the commitments that they have made. Through the Monitoring Committee that is being established to track the progress during its implementation, the parties will seek to ensure timely action and the resolution of any differences that may arise.

Keeping the momentum that was generated in the negotiations is always a difficult task, and it will be especially testing in this case, given the

differences in the interests of the members of the JCTU and other employee groups that were involved in the negotiation of the agreement. All this is very interesting but, we need high levels of labour productivity to bring **Sustained Economic Development (SED)** to Jamaica. It is therefore very important to look at what has happened in the past so we do not make the same mistakes, as we cannot afford the **high cost** of any more mistakes.

Asian policymakers and entrepreneurs have long shown themselves adept at learning from the experience of others. Much of the region's growing prosperity and economic success derives from an understanding of what has bred success elsewhere.

There is an important homegrown element to the often-spectacular economic progress we have seen in many Asian countries.

It is important to focus particularly on those factors that have helped deliver rapidly rising living standards across Asia; and to suggest ways in which other parts of the world could learn from this region's success, such as Jamaica and in particular CARICOM and the upcoming CSME.

The most striking feature of Asia's economic record in the past half-century or so is the pace of **Sustained Economic Growth (SEG)** that we have seen in many countries across the region. The numbers are impressive. The official figures show that China experienced an annual average rate of increase in real per capita GDP of over 8% during the 1990s. Real per capita GDP in Korea, Thailand and Singapore has grown by more than 5% a year, on average, since 1960. India has experienced more rapid growth rates following the reforms program introduced in 1991. **Since 1990, Asian per capita incomes have grown nearly twice as fast as that of the United States.**

What's more, this impressive growth performance was often achieved against an unpromising backdrop: countries with few natural resources, or small populations, have grown at a pace that has consistently eluded some larger or more resource-rich countries elsewhere.

Rapid and sustained growth is the key to rising living standards and falling poverty. The official figures show that the infant mortality rate in China fell by around 83% between 1960 and 2002. Thailand, Indonesia and Sri Lanka saw drops of a similar magnitude. Singapore saw a decline of 90%.

Over the same period, life expectancy for Indonesian men rose by 24 years to around 62 years; for women it rose further, by 26 years to 66 years. In Malaysia, life expectancy for men is now close to 70 and for women it is almost 75.

Literacy rates have seen similar impressive improvements. And the increase in school enrolments ensures that literacy is on the way to becoming universal.

What can Asian economic performance tell us about delivering growth elsewhere in the world—and, indeed, what can the example set by more successful Asian economies teach those economies experienced who less rapid economic expansion?

An open trading system is crucial for economic success. It is possible for closed economies to achieve high growth spurts. But no country—in Asia or elsewhere—has managed rapid growth over a sustained period without opening its economy to the rest of the world.

- 1) Trade brings competition—and this is a powerful force for increased economic efficiency. Protectionists worry about jobs lost to foreign competition. But protection costs jobs. It imposes costs on producers, especially those geared to export production (or who would be without these cost penalties). It raises the cost of protected intermediate products and thus puts producers competing with exporters in other countries at a cost disadvantage.
- 2) Competition helps increase efficiency and ensures that resources are allocated in the best possible way. It helps eliminate domestic monopolies. And so it drives down prices both for domestic consumers—as well as producers in import-consuming industries—and in the international marketplace. Prices fall because import-competing industries are no longer protected and because more competition forces monopolists to lower prices.
- 3) Trade also helps create employment, especially in emerging market countries. Open economies have an outlet for large pools of unskilled labor: instead of being a drain on resources, unskilled labor becomes an opportunity to benefit from export markets for goods whose production is labor intensive in the early stages of economic growth.
- 4) In general, the more open an economy is to the outside world, the higher are the growth rates that result. A study by Warczarg and Welch of 133 countries between 1950 and 1988 showed that countries that liberalized their trade regimes enjoyed annual growth rates of about one half of one percentage point higher after liberalization. And opening up to international trade seems to have become increasingly important: removal of trade barriers during the 1990s raised growth rates by an estimated 2.5 percentage points a year.

The rewards of openness are widely spread. Even small economies like Vietnam—which had negligible exports in 1980—have seen relatively large increases in their share of global trade as they have opened up.

Countries in other parts of the world, countries that have, for one reason or another, not opened their economies in the way that most Asian countries have, have recorded **markedly inferior growth performance.**

The impressive performance of many Asian economies owes much to the single-minded drive of governments and policymakers who were willing to persevere with their goals and who refused to be deflected. This single-mindedness is especially important once growth starts to accelerate and the temptation to relax or be distracted by other policy concerns can undermine long-term growth objectives.

Single-minded, yes: blinkered, no. Success has come in Asia in part because of the willingness of policymakers to learn from their mistakes—and, perhaps more unusually, from the mistakes of others. Governments and policymakers are like the rest of the human race—typically displaying an instinct for learning the hard way. But an adaptable approach to economic policymaking in many Asian countries has enabled governments to avoid the siege mentality that can often make problems worse, rather than better.

Successful performance was reinforced by policymakers' ability—and willingness—to try to anticipate bottlenecks and potential crisis points. They were arguably successful in this until the 1990s when they failed to anticipate the problems that weaknesses in the financial sector could bring for the wider economy.

The proximate cause of the crisis was the sudden sharp reversal of capital flows to the region. Net inflows to the Asian crisis countries were roughly 6.3% of their GDP in 1995, and 5.8% in 1996. In 1997, net outflows were 2% of GDP, a figure that rose to 5.2% the following year. The economic dislocation caused by the sudden reversal was huge, and would have been so for any country.

In terms of the policy adjustments that rapid recovery from the crisis required, the experience of the Asian economies—and for that matter many of the other countries that experienced capital account crises in the 1990s—has given us useful lessons. It reminded of things we already knew, but perhaps underestimated the importance of.

- 1) The importance of a sound macroeconomic framework. The crisis countries now have better macroeconomic frameworks in place. Monetary policy has become more focused. Fiscal policy reforms are under way in several countries. And flexible exchange rate regimes are now the order of the day in most countries in the region.
- 2) The importance of a healthy financial sector. As economies become more sophisticated, so the role played by a strong, deep, financial sector in allocating resources efficiently becomes ever more important.
- 3) The importance of a healthy corporate sector—and how much this matters for the soundness of the financial sector. A weak financial sector cannot be nursed back to health if corresponding weaknesses in the corporate sector are ignored—any remedy will turn out to be no more than a short-term fix as more corporate loans go bad. A

strong, well-regulated financial sector means addressing often-difficult issues such as non-performing loans; capital adequacy; and effective supervision. Financial institutions need the appropriate incentives to develop the skills required to assess and manage credit risk and returns. Effective bankruptcy laws—that strike the right balance between creditors' and debtors' rights—need to be in place.

- 4) So more effort is needed to deepen financial markets—to extend the number and variety of instruments available, for instance. A more rapid shift towards greater use of equity and bond financing would reduce reliance on the banking sector. It would improve the assessment and management of credit risk.
- 5) Improved corporate governance is a requirement of corporate sector health. As has become clear in all too many countries around the world, lax standards can undermine business performance and, in turn, economic growth prospects when investor confidence is damaged.

The lessons from Asia's experience are clear: persistent application of sound, pro-growth macroeconomic policies. Flexible exchange rates which reduce the risk of severe output shocks. A strong, well-regulated and deep financial sector. And a constant eye on the future—a readiness to learn from mistakes and respond to success.

A CARICOM BOND FUND

There has been much talk about a strong CARICOM to build for the future but as most CARICOM leaders with the exception of Prime Minister Roosevelt Skerrit of Dominica, seem to be lost somewhere in the post modernist period and are only capable of excessive linear political thinking

to satisfy their bruised regional egos, I find they are not learning from the global ethos of regional successes elsewhere where leaders have already mastered and managed the challenges of adversarial regional politics across cultural barriers and language barriers.

It is within this context I think the CARICOM should look at the establishment of a CARICOM BOND FUND.

The establishment of a CARICOM Bond Fund by Caribbean central banks, would ultimately aim to:

- (1) Bring back Caribbean reserves that traditionally saved in Europe or in the U.S. to be used in bond investment in the Caribbean and the fund itself will act as a channel of finance intermediation that turns savings into investment, and to
- (2) Provide a catalyst, as a lead investor, for private investors to consider investment in Caribbean issues. With the starting capital of US \$200, the fund initially will invest in sovereign and quasi-sovereign bonds issued by Caribbean governments in the international markets.

In the next step, the Caribbean Bond Fund will extend the investment into the various local bond markets in local currencies. It is hoped that in the medium and long run, the Caribbean Bond Fund would encourage and attract other investors including private money in the Caribbean and Latin America such as insurance companies, mutual funds or pension funds to participate in the market. The investment in the bond market of the Caribbean Bond Fund and Caribbean investors will lead to greater

liquidity, increased issuance, better lending terms for governments and corporations and, finally, the stability of the Caribbean financial market.

LARGE COMPLEX FINANCIAL INSTITUTIONS: CHALLENGES FOR PUBLIC POLICY.

Recently in Jamaica there have been mergers of financial institutions in to what is referred to internationally as Large Complex Financial Institutions (LCFI) engaged in banking, insurance and securities across jurisdictions. What challenges for public policy and regulations does this occurrence present?

The LCFI differs from the individual financial intermediaries, in that their balance sheet, operations and internal controls are generally more complex and less transparent. This makes external assessment and analysis more difficult. Secondly the LCFI is usually large relative to the financial system. These two aspects, complexity and size give rise to a number of specific challenges associated with LCFI's.

REGULATORY AND SUPERVISORY CHALLENGES

The key supervisory challenges is to ensure that all LCFI operations relevant for assessing group-wide risk are covered, taking due account of the interactions among various risks, business areas and regions. The additional regulatory and supervisory challenges posed by LCFI's include:

- 1) The systemic risk potential owing to their major role in payment and settlement systems.

- 2) The complexity of their balance sheet and organizational structures, which, makes liquidity problems harder to distinguish from solvency problems, hampering early detection of insolvency.
- 3) Their functional and geographical diversification makes the assignment of crisis management responsibilities and eventual workouts or winding ups more difficult.

MORAL HAZARD

- 1) The moral hazard problem for LCFI's is that they or their counterparts may not take all risk-reducing measures that are warranted because they can benefit from a bailout from the authorities if they become distressed.
- 2) Another source of moral hazard is the asymmetric information situation between the authorities and LCFI's, which clearly have superior information about their overall operations and risk-taking level.

CONTAGION

Three types of significant contagion risks stem from the operation of LCFI's.

- 1) The first concerns the intra-group contagion effects from one business area to another within a single LCFI.
- 2) The second contagion risk relates to the interbank contagion effects from one institution to another through inter-bank markets in a single country.
- 3) The third contagion risk refers to cross-country contagion between the various national financial systems where LCFI's operate and are systemically important. Such contagion could occur within the LCFI or across financial institutions.

Appropriate policy responses are crucial for addressing the challenges since weaknesses in corporate governance and market failures can render market discipline inadequate. The appropriate policy response involves devising regulatory, supervisory, and crisis management arrangements that could help address or at least mitigate risks.

CITIZEN AUDITORS: TAXPAYERS SHOULD TAKE RESPONSIBILITY FOR OVERSEEING HOW THEIR MUNICIPALITIES SPEND MONEY.

Not long ago, residents in a neighborhood in Bogotá, Colombia, were pleased to see crews arrive to pave their streets. But their pleasure turned to alarm when they discovered that the construction company had decided to cut costs by using a layer of sand under the asphalt, which would have resulted in a much less durable surface. The residents immediately contacted the Veeduría Distrital, an advisory agency of the city that handles the citizen's participation in municipal affairs, which in turn

reported the incident to the city's Urban Development Institute. The institute contacted the construction company and told them: either stick to the original plans, or you will be taken to court.

How did the neighbors know what type of material was supposed to be used for the filling? What made them think that their report would be effective?

PARTICIPATION AND CONTROL

The 1991 Colombian Constitution opened enormous possibilities for the involvement of civil society in public life. Our Local Government Reform Programme is moving in that direction but the progress is slow. As a result, the Veeduría Nacional and several Veedurías Distritales were established.

Veeduría Distrital has a twofold purpose: 1) to oversee that the cities' procedures are effective 2) to organize the citizens in their new task as monitors.

The immediate objective is to mobilize this army of monitors. The Veeduría is promoting its own visibility and organizing meetings throughout the districts to help train citizens. Anyone can join as a volunteer as long as he or she shows the commitment to participate and participates in the training.

The agency plans to open information centers at strategic locations with easy access where people who volunteer to participate in this program can go to join, be trained and get information about the projects that could affect their neighborhoods.

TRANSPARENCY

Any citizen can find out if a public institution in his district or elsewhere overspent for articles or services, from the most important and expensive to the most trivial or inexpensive: stationery, computers, printers, vehicles, hospital equipment, pencils, almost anything. It is also possible to compare those prices with what other institutions paid for identical articles and services, or with the list of “recommended prices” that the Veeduría provides as a result of its own market research.

All this information is available in the Bulletins of Prices for the District, which are published and distributed periodically by the Veeduría, and in Bogotá Transparente, a magazine of the same agency. These publications have had enormous success and have forced the local agencies to carefully examine their practices. The Veeduría also publishes bulletins with detailed accounts of the annual budget as well as regular updates on current expenses.

CORRUPTION PREVENTION

The city helps to prevent corruption by signing transparency agreements with construction companies, auditors and evaluation committees to prevent and deter bad practices. As for internal transparency, the Veeduría can undertake investigations against public officials. An agreement with the office of the Public Prosecutor and with the Department of Security Administration allows initiating judicial procedures,

Citizen’s Meetings are another part of this strategy to promote transparency. They give opportunities for residents to discuss and help plan local development strategies for the following four years. The Municipality of Bogotá also holds a series of public hearings to report on

the city's budget that are usually broadcast live by the local television stations.

Can we in Jamaica learn anything from this positive Colombian experience?

JAMAICAN COMMUNITY TERTIARY EDUCATION PROGRAMME (J.C.T.E.P.)

...The new information and communications technologies are among the driving forces of globalization. They are bringing people together, and bringing decision makers unprecedented new tools for development. At the same time, however, the gap between information "haves" and "have-nots" is widening, and there is a real danger that the world's poor will be excluded from the emerging knowledge-based global economy."

Kofi Annan, United Nations Secretary General

Although Jamaica has the highest per capita cellular phone usage in Latin America and the Caribbean¹⁰ the use of the available technology to revolutionize Tertiary Education¹¹ for the rural people of Jamaica has not happened yet. One would of thought that by now, in the context of 21st century technology thinking, we would have moved away from the "BRICK AND MORTAR" thinking, whereby to acquire tertiary education one has to go to a University of the West Indies, University of Technology or Northern Caribbean University. There has been the opening up of the distance learning market by new entrants such as Nova-Southeastern, Barry University, Florida International University and the University of Manchester. These however have been primarily for the business executive who can afford high fees ranging from \$US10, 000-\$US22, 000.

¹⁰ JAMPRO/Ministry of Commerce & Technology Study 2002.

¹¹ Postsecondary, Certificates, Diplomas, BA, MA, PhD Etc...

In view of the fact that in the new triennium 2005-2008, students at tertiary institutions may have to pay up to as much as 50% of their economic costs; for the resources will be reallocated to Basic/Primary/Secondary, we must now look at distance education seriously. We are of the opinion if this education via the Internet was available to the common man in the rural areas, we would see an explosion of tertiary educated individuals to as high as 75% of the population over a 5- 7 year period in Jamaica. This paper will examine what we refer to as a **Community Tertiary Education Programme (CTEP)**, which we feel if implemented island wide will seriously enhance the level of skilled and trained people in Jamaica and make us seriously **Globally Labour Competitive (GLC)** to attract the best off shore industries and our ability to export these excess skilled and trained people to bring about not only economic growth but also strong economic development.

THE 20TH CENTURY MINDSET

HISTORICAL BACKGROUND

In the 20th century where access to knowledge was through libraries, those who had access to books were knowledgeable and controlled the thinking of individuals by impressing upon the ignorant (those who lacked knowledge) what they read in these books from the libraries which limited access to a minority in Jamaica. As such, certain people in Jamaica were considered bright and intelligent and others subjugated to a station in life as labourers and cleaners for eternity, generally speaking, not so.

In 1992 the Hon. Mayer Matalon, The Chairman of Telecommunications of Jamaica (TOJ) the predecessor of Cable and Wireless gave free Internet access to students of the University Of The West Indies. This was a landmark decision. However only a few took up the opportunity and once again these were same people who controlled knowledge by having access to libraries previously.

In 1996, Computers came to the Halls of residence on the Mona Campus as a result of donations of computer labs. But the lack of education of this important policy shift even at the tertiary level was self-evident.

It is only now in 2004, 12 years after free Internet access was given to students at the University of The West Indies that some impact and use of the Internet is being appreciated.

THE SEARCH ENGINE

Whether you accessing the Internet from your home or from an Internet Café, one can go to search engines such as Google.com which has over 3 billion pages of information as such, the information in the traditional libraries on the shelf are mostly outdated as information is updated real-time in internet libraries.

BRICK AND MORTAR THINKING AND COSTS

If we have Internet access, through cafes or home computers why then has this **Rapid Information Revolution (RIR)** not translated into more tertiary educated people being trained and educated? The answer to this question is two-fold: 1) Brick and Mortar Thinking 2) Cost.

We have been socialised to believe that unless we attend physically a university we will not be properly tertiary educated. The rest of the world

has long put this backward way of thinking behind them and have revolutionized tertiary education through rapid **Distance Learning Education (DLE)**. It is ironic that those from the Brick and mortar, who still continue to down grade distance learning education, were educated, especially at the first-degree level by correspondence courses from the University of London External Degree programme.

As an aside, there is a thinking in Jamaica that if you revolutionize distance education in Jamaica the so called bright will be become marginalized by everyone having full access as such those who have paid large sums for Tertiary Education in an attempt to secure and or acquire status in Jamaica will not be able to demand the large sums of remuneration they are now demanding.

The hidden secret that many adult Jamaicans do not know is that there are many Internet/Online Universities that are accredited and recognized by the United States Department of Education (DOE) and British Council on Education (BCE) at prices of \$US3, 000-\$US5, 000 for the entire degree programme and offering payment plans suited for everyone.

Were we focussed and open-minded and in tune with the **“out of the box” thinking** associated with Globalization, Jamaica as a country would be one of the wealthiest in the world.

JAMAICA AND URBAN DEVELOPMENT PROBLEM SOLVING

“Along with that specific task, I want to venture further a field with you and to make some strong claims about what I think community building—an emerging form of locally oriented, collective problem-solving—is and is *not*, about why I think seeing ourselves as “community builders,” albeit in

many different roles, is so important at the turn of this new century, and about why we should think about this particular form of social problem-solving and community action—on housing and a host of related challenges—as the noblest form of “politics” and democratic renewal in America....”

Xavier de Souza Briggs, Community Building: The New (and Old) Politics of Urban Problem-Solving, John F. Kennedy School of Government, Harvard University

Xavier de Souza Briggs in analyzing aspects of urban development of cities in the United States as it relates to their sustainable development raises some interesting points that are very relevant to what is happening in Jamaican Local Government development but which Local Government officials and their representatives are either ignorant of or their political arrogance has clouded their solution orientation processes. I share these with you as they apply to our Jamaican situation.

1. The continued suburbanization of jobs, wealth, and political power in Jamaica, not so much abandoning our core towns and cities but fearing them and striking a less-than-square deal with them—this despite improvements in the economic vitality, safety, and image of towns and cities over the course of the economic expansion.
2. The evolution of our services-dominated, decentralized, skill-intensive, and networked global economy. It is an economy powered, yes, by new communication and information management technologies but also one resting on a particular set of political assumptions about how economies can best provide for their societies, assumptions which are coming under renewed scrutiny. The evolution of this global economy involves such basic shifts in the

nature of work, economic governance, and productive capacity, such increases in the speed of innovation and forced obsolescence, and such big unanswered questions about social equity, that the most disadvantaged workers and their communities, not to mention the jobless, are likely, for some years to come, to see more threat than opportunity here. But in our Jamaica scenario let us consider both.

3. The devolution or decentralization of governance, not only in Jamaica but in many other parts of the world. This is one of the principal drivers or “demand sources,” if you will, of community building practice. By definition, the more localized, decentralized and even ambiguous authority over public and private purposes is, the more collective problem solving will be called for, the more strategic alliances will be tried, the more direct stakeholder engagement in problem-solving will be debated, and the more negotiated our interactions with one another will be. Despite what we often hear about “partnership” and collaboration in place of confrontation, though, the name of the game is not merely frictionless transactions among efficient problem-solvers who somehow ignore old differences and divides, but rather old-fashioned give and take over where the public interest lies, who gains or loses under particular decisions, over what the rules of the game should be. You can see me hinting at why politics must be central to much community building. And why the phenomena of “social capital”—the resources for individual and collective action that are stored in norms and networks of connectedness, in the degree of “community” we possess, you might say—why social capital often matters because of, not instead of, political interests and political action.

4. The marketization and non-profitization of social policy. This is really a trend in two dimensions: on one hand, calling on private capital and market mechanisms to do good, public-serving things, from housing to health care, from child care to business development; and on the other hand, contracting with private for-profit or not-for-profit organizations to perform many of the functions that government does not wish to perform or cannot—so the perception goes—perform as well as other types of organizations. There is, it seems to some of us, a powerful and mostly unspoken consensus on the part of Jamaica’s dominant political actors: first, about the essential efficiency and capacity of the market to provide and, second, about the democratic legitimacy of nonprofits (especially “community-based” ones) to play a leading role in social problem-solving. I will hint at some of my reservations by noting that “nonprofit” is an indicator of tax status, not of sainthood. I respect the nonprofit sector, but in general, I think we should care less about institutional labels and symbols than about proofs of organizational performance and democratic constituency building.

5. The ageing of Jamaica. We are living through both the early stages of an unprecedented boom in the population of our elders, one with which our politics and institutions are only slowly coming to grips, We often say that demography is destiny, but what does that mean in the context of local problem-solving? It means that the who of our Nation not only creates important targets for community building work, as needs and opportunities change, but also shapes how the work gets done and how it is perceived by a wide array of “publics”

who support matters. Marketing consultants and political pollsters can handle this sharply increased diversity from the keyboard: the Nation is sliced into zillions of lifestyle and ideological niches, organize-able statistically. Community builders have no such instantaneous options for making diversity work.

There are five challenges that need to be seriously addressed, they are as follows:

1. Learning together is a vital element but all too often an invisible, taken-for granted one. Problem-solving actors must learn together the nature of the work that must be done and how to approach it jointly. This "social learning," or learning in the context of social action, is sometimes, but only sometimes, carried out with the aid of a facilitator of some kind. When we speak of networks and teams as being valuable, it is often for this reason first: that actors in a network or on a team learn together and become more effective in the process—much more so than well intended but isolated actors.
2. Organizing and shaping interests, including building and mobilizing constituencies and framing shared interests in powerful ways. This element reminds us that community building is not simply about transacting with others where interests are well defined. Here, then, is democratic renewal, with all the rich possibility and risk and conflict that implies: we can shape each other's interests, enhance our own capacities to deliberate with others, appeal to expanded definitions of interest, discover shared interests by investing in relationships with one another, and help to mobilize stakeholders who have never before defined nor acted on their interests.

“Empowerment” in the context of community building refers to that last point mainly, but any set of actors, even elites, may need to be—and often are— “organized” as part of community building;

3. Agreement seeking and conflict management, driven by interests, values, and trust dynamics. Where actors and interests are somewhat defined, they can—and will— bargain with each other around those interests. “Bargaining,” which often seems to have the negative connotation of horse trading or opportunism in public interest contexts, turns out to be pervasive and worth mastering. And why not? Again, in a world of more decentralized and diffuse authority, or flatter hierarchies, more of the things we care about will be negotiated. In simpler terms, bargaining skill is essential to life in a democracy, even when it annoys us, as it sometimes will. What is more, the theory and practice of negotiation and conflict resolution is well evolved enough to serve as a foundation for other areas of knowledge building and skill building. Negotiation encompasses a powerful core vocabulary—actors, issues, interests, and options—and articulates practical roles for crosscutting variables, such as relationship, trust, and power. It does not describe all of the terrain, but it does shed light on some of the most pivotal, make-it-or-break-it aspects of community building work;
4. Planning and deciding together. Developing and sustaining mechanisms for mapping out and organizing ideas about the future and rendering decisions under conditions of shared power. In the spirit of deliberative democracy, this means finding workable recipes for shared planning and governance. “Workable recipes” are those

that manage trade-offs among efficiency, inclusiveness, accountability, and other aims. This means avoiding process paralysis, balancing the tensions between simply building relationships and getting tasks completed. These are some of the most visible aspects of community building and also some of the most frustrating and demanding in terms of patience and skill; and

5. Producing together. Co-producing—mobilizing and deploying productive capacity within and across institutions. This means not simply doing better and more inclusive politics in the form of shared decision-making but leveraging and deploying diverse forms of capacity to perform operational work. When a group of interested actors is really a coalition (political interest and political objective-driven) but thinks itself a collaborative (operationally focused), it is often because of a failure to draw this distinction. Both political and operational “work” are part of the work of community building, but confusing the two can lead to frustrated expectations, false starts, and even damaged relationships and other outcomes;

In concluding, some thoughts for the future development for community building can be summarized as follows:

1. An enthusiasm for shared decision-making and stakeholder engagement that, in many instances, quickly outpaces both the recipes available to guide those pursuits and the skills and capacities of the actors involved to pursue them effectively.
2. The vagueness about the political and operational meanings of “partnership” or “collaboration,” including intended roles and powers

of the engaged “partners,” not to mention a vagueness about the capacity of each partner to meaningful engage in anything worthy of the label “partnership.”

In some localities, evidence of a surplus of alliance building initiatives and institutions with duplicative missions. Related problems include role confusion, muddled expectations, process paralysis, and turf battles.

3. What might be called “misplaced localism”—suspicions of outside expertise so deep that that they obscure important patterns, including power and bargaining dynamics and institutional design issues, that recur frequently across local contexts.

4. A general disregard for the role of politics—with its images of bare-knuckled conflict, machine-era favoritism, media war insincerity, and “win-lose” debacles—in initiatives that promote connectedness and trust, often via messages emphasizing “win-win.” This disregard ignores the co-existence of competition and cooperation in most strong communities. It also ignores the fundamental role of interests in motivating human relationships, organizing communities of interest and meaning, and improving human life and democratically defining its value.

Jamaican policy makers whether at the local or governmental levels need to keep these points in mind especially as they move forward with urban development strategies to transform Jamaica from a developing country into a developed one.

UNLEASHING THE POWER OF THE PHYSICALLY CHALLENGED

...Part of the challenge of dealing with disability as an issue in development is to demystify it.

Judy Heumann, the advisor on disability and development in the Human Development Network at the World Bank

Imagine being excluded from school or being unable to work simply because you need glasses.

Or being unable to walk down the street because you are too short or too old to traverse high gutters designed to stop people parking on the sidewalk.

These are just two of the dilemmas that are being confronted as part of a worldwide push to foster more inclusive policies toward people with disabilities in developing countries.

Action plans are currently being prepared by working groups in all regions using a grant from World Bank President James D. Wolfensohn's contingency fund.

The aim is to make sure the needs of disabled people are addressed across the board – in education, housing, transport, the environment, across all the sectors.

The disability and development teams of the World Bank is also focusing on working in partnership with other international development agencies and disabled people's organizations to increase their capacity to lobby on behalf of their constituents.

Unless proper attention to people with disabilities is paid, it is unlikely that we will meet some of the Millennium Development Goals (international development targets to be reached by 2015).

In the case of education. Education for All means education for all children, including those who have disabilities. And yet how many of our schools are built with the access for children who have physical disabilities? How many of our teachers are trained to deal with children who have learning disabilities."

Disabled people have been something of a lost generation in many developing countries. Many children with disabilities – such as being confined to a wheelchair or deafness – are denied an education.

In some societies, disabled people suffer from stigmatization and are hidden by their families who fear they will be tarnished by association.

One of the first tasks of any disability and development team should be to work on finding out the numbers of disabled people in developing countries.

World Bank estimates to date put the number at around 10 percent of the population – about 400 million people across the whole developing world.

But given that countries like the United States and Australia have reported disability rates closer to 20 percent, the 10 percent figure seems too low.

Judy Heuman (*Unleashing Human Talents, World Bank 2004*) says, in many countries, taking disability into account can be like a "low hanging fruit" in terms of making development gains.

Heumann says collecting data on disability is extremely important in terms of making gains on the disability front.

"In Brazil, when they inserted one or two questions on disability into household surveys, they found a high percentage of children that were considered legally blind actually just needed glasses," Heumann says.

There are children and adults who are unable to work or have limited ability to work or to learn but who could be quickly helped by giving them glasses or a hearing aid.

In India and Vietnam some of the curbs on the streets are inaccessible to disabled people – and even short and old people – because they are too high. Some are now being lowered at the urging of local disability advocates.

In many cases simple interventions can make a big difference to the lives of people with disabilities, their families and the overall performance of the country.

For example during major renovation or restoration efforts in the wake of natural disasters or conflicts, it adds only about 2 percent to the project cost to make buildings accessible to people with disabilities.

Part of the process of making a difference comes in recognizing the true nature of disability, which in most cases need not impede people from leading fulfilling and productive lives.

"Disability is not just people who are blind or deaf or in wheelchairs," Heumann says. "Many of the people are in a gray area with mild to moderate mental health disorders, mild to moderate intellectual disabilities, mild to moderate physical disabilities.

"People with mild to moderate disabilities need very little to be mainstreamed into society."

She says one of the biggest problems faced by people with disabilities is stigma. "Families will hide their children or others in the family who have a disability for fear that the stigma on the whole family will be very significant."

DOES THE JAMAICAN FINANCIAL SYSTEM NEED A STRESS TEST?

Imagine you are an official at the Bank Of Jamaica or a supervisory agency such as the Financial Services Commission with responsibility for monitoring financial stability, when you get a call from your Governor or from the head of your agency informing you that you have to "stress test the financial system." What does this mean? What is involved? Where does one begin?

WHY DO A STRESS TEST?

Stress testing a financial system can be a resource intensive process, so it is reasonable to ask the question: Why should a country undertake such an exercise? Countries that have completed the process often cite numerous benefits. Financial system stress tests provide information on the behavior

of the system under exceptional but plausible shocks, helping policymakers to assess the significance of the system's vulnerabilities. As noted in IMF and World Bank (2003), the value added from system stress tests derives from a consultative process that integrates a forward-looking macroeconomic perspective, a focus on the financial system as a whole, and a uniform approach to the assessment of risk exposures across institutions

Jones, Hilbers, Slack (2004), in a recent analysis states: system stress tests can complement stress tests conducted by individual institutions, and act as a crosscheck for other types of analysis. The information provided by system stress tests can also help to identify weaknesses in data collection, reporting systems, and risk management. The process itself can help to increase expertise in risk assessment by supervisors and the institutions involved, and promote cooperation and a broader understanding of risks by different regulatory institutions. In turn, this can contribute to a better understanding of the links between the financial sector and the macroeconomy.

WHAT IS A STRESS TEST?

In individual financial institutions, the term describes a range of techniques that attempt to measure the sensitivity of a portfolio to a set of extreme but plausible shocks. Put more simply, a stress test is a rough estimate of how the value of a portfolio changes when you make large changes to some of its risk factors (such as asset prices). Stress tests are simply an analytical technique that can be used to produce a numerical estimate of a particular sensitivity. The stress testing process, however, is more than just applying a set of formulas to spreadsheets of numbers, but involves a series of judgments and assumptions that can be as critical to producing meaningful results as the actual calculations themselves. Each assumption, aggregation, or analytical approximation made in the process can introduce wide margins of error to the results, and so much care should be taken in their estimation and interpretation.

Stress tests were originally developed for use at the portfolio level, to understand the latent risks to a trading book from extreme movements in market prices. They have now become widely used as a risk management tool by financial institutions.

Gradually, the techniques have been applied in a broader context, with the aim of measuring the sensitivity of a group of institutions (such as commercial banks) or even an entire financial system to common shocks.

System-focused stress tests, as the name implies, have several important differences with

portfolio-level stress tests. The ultimate intent of system-focused approaches is different, as they aim to identify common vulnerabilities across institutions that could undermine the overall stability of the financial system. The focus is also more macroeconomic in nature, as the investigator is often interested in understanding how major changes in the economic environment may affect the financial system. A second difference between system-focused and portfolio-level stress tests lies in the complexity and degree of aggregation. System focused stress tests may involve aggregation or comparison of more heterogeneous portfolios, often based on different assumptions and methods of calculation.

System focused stress tests are not intended to replace the regular stress testing done by individual financial institutions. Instead, they are designed to complement them with a broader understanding of the sensitivity of the overall system to a variety of shocks, and to leverage the existing expertise found in different institutions. System-focused stress tests can be classified according to two types: simultaneous stress tests of multiple portfolios using a common scenario, or a single scenario applied to an aggregated portfolio or model of the entire system. Constructing an aggregated portfolio or model with sufficient detail is often an arduous and complex task, and so typically most system-focused stress tests have adopted the first approach of applying a common scenario to a variety of institutions. This approach has the advantage that it provides information on the overall impact of shocks as well as their distribution throughout the system, which can be useful for understanding the potential for contagion and confidence effects on stability. If data availability allows, conducting both types of tests—on an aggregated portfolio as well as on individual portfolios—will provide the maximum information on a system’s vulnerabilities.

IMPORTANT MACRO-INDICATORS

Knowledge of the broader macroeconomic environment will provide an overall context for the performance of the financial system and indicate potential sources of shocks.

Understanding the macroeconomic picture aids the understanding of what is “normal” for an economy, with respect to its own history and in comparison with other countries. This information provides a useful metric for understanding potential sources of shocks, since key macro and financial variables that are the most volatile, misaligned, or out of equilibrium are often the most susceptible to major shocks or realignments. This analysis can also inform the macro simulations described later. Such an analysis can make use of data on the following sectors of the economy:

- The real sector: such as the growth performance of the economy relative to potential, growth rates for consumption, investment, and incomes; unemployment rates; inflationary pressures on consumer, wholesale, and asset prices. For the household and corporate sectors: measures of indebtedness, leverage, income growth, and debt servicing ability.
- The government sector, using indicators of the relative magnitude of the government deficit, debt stock, and associated debt sustainability; the size of the present fiscal impulse; and how the government budget is financed.
- The external sector, using indicators of the magnitude of the current account deficit, official reserves, and how the deficit is financed; the relative size, maturity structure, and currency composition of external debt; the extent of exchange rate misalignment and whether there are any pressures on the exchange rate.

STRUCTURAL INDICATORS

Indicators of the structure of the financial system can provide important insights into the location of risks in the financial system:

- Ownership and market shares, by institution and by type of institution identifies linkages between different components of the financial system, and helps identify systemically important institutions and sectors. This data could include total assets or profits, broken down by bank or other institution, as well as by sector.
- Balance sheet structures, derived from aggregate financial statements can indicate significant exposures to particular classes of assets and liabilities or income sources. This information can be analyzed by type of financial institutions (e.g., for the banking system, for insurance companies, for other nonbanks) as well as over time to indicate areas of concentration or accumulation of risks. Such aggregated information can be used to analyze growth rates of credit by various types of institutions and to different sectors, in conjunction with a variety of financial soundness indicators.
- Flow-of-funds accounts can provide insights into major changes in the patterns of intermediation in the economy, and trends in fund raising by different sectors and instruments, which can help identify key sectoral vulnerabilities.

FINANCIAL SOUNDNESS INDICATORS

In addition to using the broad macroeconomic context and structural indicators, we can use a range of financial soundness indicators (FSIs) to narrow the focus and understand the financial system's vulnerability to shocks and its capacity to absorb the resulting losses.

Interpreting developments in FSIs presents particular challenges, because they are a new body of statistics in which compilation and analytical experience is often limited. In using FSIs to identify financial vulnerabilities, the following considerations should be kept in mind:

- FSIs for specific peer groups and associated measures of dispersion should be monitored to identify common vulnerabilities and concentration of risks.
- Ideally, FSI data series should extend back to cover at least one business cycle to facilitate interpretation of current FSIs.
- Data underlying the FSI ratios (both numerators and denominators) should be reviewed to gauge the source of inter-temporal movements in the ratios.
- Close attention should be paid to definitions and treatment of accounting and consolidation issues (across borders and within business groups). The general reliability of the data used to construct FSIs should also be assessed.

STRESS TESTING OF BANKS AND THE BASEL CAPITAL ACCORD

In 1996 the Basel Committee on Banking Supervision (1996, 1998) recommended that banks using the internal models approach to capital adequacy for market risk have in place a “rigorous and comprehensive stress-testing program.” This recommendation gave impetus to a growing awareness and familiarity of stress testing by banks.

The 2004 revised Framework for the New Basel Capital Accord (or Basel II) issued by the Basel Committee on Banking Supervision (2004) goes even

further in its recommendations with regard to stress testing, in line with the increased emphasis on the use of the internal ratings based approach. Basel II now calls for banks to use stress tests for a variety of purposes.

STRESS TESTING OF INSURANCE COMPANIES

Stress testing of insurance company balance sheets and income statements is not as well developed as stress testing of banks. This is due in part to the history of stress testing (banks were early proponents), and also due to regulatory impetus. Furthermore, insurance companies are generally considered to represent a lower level of systemic risk than banks, mainly due to the different character of their liabilities, which often have a longer duration than banks. However, distress in the insurance sector can have important systemic implications, including through ownership relations with the banking sector and its impact on confidence in the financial sector as a whole. For insurance companies, the revised Insurance Core Principles issued in 2003 by the International Association of Insurance Supervisors (IAIS 2003a, p. 35) includes stress tests as an advanced criterion for Principle 20: "The supervisory authority requires that insurers undertake regular stress testing." The IAIS (2003b) also issued a guidance paper on stress testing by insurers. These documents provide a broad set of principles for stress testing that companies should follow, recognizing the importance of stress testing as a risk management tool.

STRESS TESTING OF THE CORPORATE SECTOR

In many countries, loans to the corporate sector account for a significant portion of total lending. Thus, stress testing the balance sheets of the

corporate sector can provide useful information on the underlying credit quality of bank portfolios (Glen (2004), Goldman Sachs (1998, 2000), and Heytens and Karacadag (2001)).

POLICY BENEFITS OF STRESS TESTING

- Country authorities and individual financial institutions now play a greater role in the design and implementation of stress tests, as familiarity and use of the techniques have spread. Increased reliance is being placed on using the internal models of banks to evaluate the impact of shocks, including their off balance-sheet exposures.
- The use of macro-simulation models to calibrate a macro scenario has increased.
- Coverage of nonbank financial institutions has increased, with large insurance companies now being included in many cases as part of the analysis.

Stress testing is best seen as a process of identifying vulnerabilities and providing a rough estimate of sensitivity of balance sheets to a variety of shocks. System-focused stress tests attempt to marry a forward-looking macro perspective with an assessment of the sensitivity of a collection of institutions to major changes in the economic and financial environment.

The process of conducting a system-focused stress test begins with the identification of specific vulnerabilities or areas of concern, followed by the construction of a scenario in the context of a consistent macroeconomic framework. Isolating key vulnerabilities is an iterative process involving

both qualitative and quantitative elements. A range of numerical indicators can be used to help isolate potential weaknesses, including the “big picture” or macro-level indicators, broad structural indicators, and more institution-focused or micro level indicators. Ideally, a macro-econometric or simulation model should form the basis of the stress-testing scenarios. A working group of selected experts may facilitate the process.

Once a set of adjustment scenarios have been produced in a consistent macro framework, the next step is to translate the various outputs into the balance sheets and income statements of financial institutions. There are two main approaches to translating macro scenarios into balance sheets: the “bottom-up” approach, where the impact is estimated using data on individual portfolios, and the “top-down” approach, where the impact is estimated using aggregated data.

A variety of metrics can be used to summarize the results of stress tests, with the most common ones being measures of capital, assets, or profitability in the denominator. Public dissemination of the results of stress tests may present some challenges, but the publication of results by a broad range of countries has shown that these are not insurmountable.

EXCHANGE RATE STABILIZATION AND POLITICAL OPPORTUNISM

In response to high and chronic inflation, countries have adopted different stabilization policies. However, the extent to which these stabilization programs were designed for political motives is not clear. Since exchange-rate-based stabilizations (ERBS) create an initial consumption boom followed by a contraction, whereas money-based stabilizations (MBS) generate a consumption bust followed by a recovery, policymakers may consider the timing of elections when determining the nominal anchor for stabilization. There is strong evidence that the choice of nominal anchor

depends on elections, implying the existence of political opportunism. ERBS are, on average, launched before elections while MBS are set after them.

It is clear that politics influences economic policy. Determining the extent to which this happens is quite a challenge, particularly for researchers studying developing countries.

It is a challenge worth meeting, however, because failing to design the appropriate policy may have a major negative impact on the welfare of these societies.

An example of a policy with a high political dimension and strong welfare impact is the choice of nominal anchor to stabilize inflation. In response to high and chronic inflation, many countries have adopted stabilization policies. These policies differ in their design, but to what extent these differences arise from political, rather than economic, motives are not clear. Nor is it known whether and to what extent policymakers take advantage of the consumption cycles derived from the different stabilization strategies in order to further their political career. There are basically two possible anchors available for policymakers to stabilize inflation: the exchange rate and a monetary aggregate. These alternatives lead to two different consumption paths even if to the same end result in terms of welfare.

Exchange rate-based stabilization programs generate an initial consumption boom and later a recession in the economy whereas money-based stabilizations generate an early consumption bust followed by a recovery. A benevolent dictator might be indifferent to the differences between both strategies but elected officials must be sensitive to the reaction of voters. If voters are not perfectly forward looking, then the

timing of elections might matter, and knowledge of these consumption patterns allow politicians to use both nominal anchors opportunistically. In particular, an opportunistic politician might use exchange-rate-based stabilizations prior to elections whereas monetary anchors might be employed after elections. The existence of political opportunism in the choice of nominal anchor to stabilize inflation, thereby contributing to the existing political economy literature sheds some light on the decision-making process behind a country's choice of a particular stabilization strategy. The results derived from fairly simple econometric models using data on full-fledged stabilization episodes clearly indicate that the timing of elections affect the choice of anchor for stabilization. In particular, policymakers assess how distant the next elections are before making their choice of nominal anchor in the inflation stabilization program that they have decided to embark on.

Estimates strongly suggest that the probability that policymakers adopt exchange rate based stabilization is higher when they are closer to the date set for future elections. The probability of adopting a money-based stabilization, on the other hand, is higher when future elections are far away and previous elections are closer. Moreover, the results show that the stock of international reserves available for policymakers, and the extent of the openness of the economy and fragmentation of the political power not only affect the choice of anchor to stabilize inflation but also the degree to which policymakers may be more or less opportunistic in their choice of anchor. For example, three different policymakers who decide to launch a stabilization program at different moments of their election cycle will have, respectively, 45 percent probability of choosing the exchange rate as the anchor three years before elections, 78 percent two years before elections, and 99 percent one year prior to elections, for the case where reserves

cover 10 percent of M3 money supply. Likewise, other things being equal, a difference of about three years in the time remaining to next elections implies a difference of 24 percentage points in the probability of adopting an exchange-rate-based stabilization (76 percent five years before elections and 100 percent two years prior to elections).

The political economy literature has documented the impact of elections on different economic variables ranging from public budget deficits to inflation and real exchange rate. In particular, theoretical and empirical papers have established that the existence of political opportunism in developing countries creates a common pattern where these different variables cycle around elections.

An interesting question would be to assess if the effect of electoral politics on economic policy is different in developed and developing countries. If so, it might be suggested that strengthening the institutions that oversee politicians in developing countries might reduce the degree of existing political opportunism, which, in turn, may improve the quality of economic policy in these countries.

AIR JAMAICA AND GOVERNMENT SPENDING

The Sunday Herald carried recently a very good investigative piece on Air Jamaica losing \$JA33 Billion dollars over 10 years. It should be noted the last time Air Jamaica made a net profit was in 1974 of \$US 250,000 under President Guillermo "Bigge" Machado (a Jamaican President). The Government has come out and said clearly they will continue to support Air Jamaica. In addition not mentioned in the article, IATA has stated that

World Airlines for 2004 will lose \$US5 Billion dollars. More importantly this speaks to a greater issue of Government spending and its effect or lack of thereof.

In contrast to the vast literature on determinants of economic growth, there has been less research on the cyclical behavior of macroeconomic aggregates (Inflation, Unemployment and Production) in developing countries. One reason for this is the relatively weak quality of data and its frequency in many developing countries. For example, quarterly GDP data are available for only a limited number of countries, and even when they are available they are usually of significantly lower quality and reliability than annual estimates. Another constraining factor is that developing countries often experience abrupt economic changes, making it particularly difficult to separate cyclical influences from structural breaks.

A better understanding of the factors underlying the cyclical pattern of macro economic aggregates is useful for at least two purposes. First, examining the relationship between overall economic activity and fiscal and monetary aggregates has analytical value from the perspective of business cycle modeling. Second, as Agénor and Montiel (1996) argue, this type of analysis can make a valuable contribution to the design of stabilization and adjustment programs (which Jamaica has had numerous problems with over the last 25 years)

In examining data from 51 countries a number of areas were paramount:

- 1) Co-movements of government spending and output.
- 2) The short-term variations between government spending and output from any longer-term relationship.

- 3) The variation in the relationship between government spending and output by focusing on key political and economic determinants.

With few exceptions (mostly for Latin America), existing studies of developing countries like Jamaica have either focused on the long-run relationship between spending and output, or have examined the *volatility* of growth and its relationship to the *volatility* of various fiscal aggregates (see, for example, Fatás and Mihov, 2003), without examining the factors underlying the cyclical behavior of the latter.

Three policy implications can be drawn from this argument:

- 1) In many countries there may be scope for fiscal rules or fiscal responsibility laws that limit the discretion for procyclical fiscal policy during upswings in the business cycle.
- 2) A strengthening of checks and balances— that is, a greater dispersion of power—is fully compatible with good economic policymaking, since it helps reduce the cyclicity of government outlays.

In many countries there is a long-term relationship between the level of output and government spending. In these countries, short-run cuts in spending, or surges in government outlays, will eventually be erased as the government spending/GDP ratio returns to its long-term average. In countries like Jamaica, special care will need to be taken to ensure that

spending cuts achieved over the short run are accompanied by longer-term structural reforms to ensure these savings are durable.

HER MAJESTY'S GOVERNMENT TO SAVE THE WORLD?

"I am encouraged by the efforts that countries and donors are making to achieve the Millennium Development Goals by 2015. Developing countries have made welcome strides in improving policies and institutions to create a better environment for growth. Donors are making progress in harmonizing their aid agendas, thus rendering aid policies more coherent and effective. But despite these efforts, developing countries cannot make the infrastructure and social expenditures needed for sustained growth and poverty reduction."

Rodrigo de Rato
 Managing Director of the International Monetary Fund
 At the Summit of World Leaders for Action Against Hunger and Poverty
 New York, September 20, 2004

World leaders are hoping to put a spotlight on the growing gap between rich and poor and the failure to find US\$50 billion (euro41 billion) a year to help more than 1 billion people escape extreme poverty and start sharing global prosperity.

Brazilian President Luiz Inacio Lula da Silva said recently that poverty is "morally and ethically unacceptable." He called for a global campaign "to free all human beings from hunger" and ensure that 24,000 people don't continue to die every day because they have nothing to eat.

How will this be possible, especially by 2015 when the millennium Development Goals are to be achieved?

INTERNATIONAL FINANCE FACILITY

In January 2003 HM Treasury and the Department for International Development (DFID) launched a proposal for an International Finance Facility (IFF). The IFF is designed to frontload aid to help meet the Millennium Development Goals.

Estimates suggest that development assistance must be doubled and focused on the poorest countries if the Millennium Development Goals are to be met. an increase of at least \$50 billion a year. At the UN.s International Conference on Financing in Monterrey in 2002, donors pledged to provide an additional \$16 billion a year from 2006. But this means a significant resource gap must be bridged if the Millennium Development Goals are to be reached.

The Millennium Development Goals represent different indicators of the same basic poverty. Investments in different sectors must take place simultaneously to ensure sustainable progress. Education, health, access to water, roads and other infrastructure for growth must be tackled at the same time to ensure a lasting exit from poverty. Funding for debt relief should reinforce, not replace, funding to build a skilled work force and the infrastructure and capacity to trade.

The IFF, as a stable financing vehicle, could provide the critical mass of additional and predictable funding needed to make lasting progress in all these areas.

Donors are committed to reaching the target of 0.7% ODA/GNI, but a number have fiscal constraints that will not allow them to increase aid levels in the short to medium term. The IFF should be seen as a complement to donors. long-term commitment to 0.7% ODA/GNI: it would meet the immediate need for resources to meet the MDGs as donors move towards the 0.7% ODA/GNI target.

The IFF:

- Is a financing mechanism, which would provide up to an additional \$50 billion a year in development assistance between now and 2015.
- Would leverage in additional money from the international capital markets by issuing bonds, based on legally binding long-term donor commitments.
- Would be responsible for repaying bondholders using future donor payment streams.
- Would disburse resources through existing multilateral and bilateral mechanisms.

The IFF has the following advantages:

- It provides the additional resources necessary to help achieve the MDGs, making funds available for education, health, economic development, debt relief and building trade capacity.
- It locks in the political commitment of donors to Monterrey pledges.
- It provides the predictability and critical mass of aid needed for simultaneous and sustainable investment in developing systems across sectors, tackling the causes rather than the symptoms of poverty.
- It could achieve a step-change in aid effectiveness through donor agreement to high-level aid principles such as untying aid.

Since the proposal for the IFF was launched, it has received broad interest and support from emerging markets, developing countries, international institutions, faith communities, NGOs and business.

FUNDAMENTAL ISSUES ADDRESSED

IS IT WRONG TO BORROW FOR DEVELOPMENT?

No. The World Bank, for example, is a long-standing borrower in the capital markets, and all countries borrow to invest in their long-term prosperity. There is clear economic justification for borrowing for investment in poverty reduction. The rates of return from such investment are greater than the target rates of return of both donor and recipient countries, and the cost of borrowing. For example, evaluations of World Bank projects show average annual rates of return of 23%(Foster, M. (2003) The Case for Increased Aid)

IS IT AN ALTERNATIVE TO THE 0.7% ODA/GNI COMMITMENT?

No, the IFF should be seen as complementary to the target of 0.7% ODA/GNI. In the long-term the Government is committed to reaching this target. But due to the fiscal pressures faced by key donors, the international community will not be able to meet the 0.7% target in the short term. If the two or three biggest donors do not get to 0.7% ODA/GNI immediately then even if every other major donor country reached 0.7% we would still not raise the \$50 billion needed to meet the MDGs.

WHAT HAPPENS TO AID BUDGETS AFTER 2015?

Donor contributions to the IFF would consist of the additional commitments made at Monterrey, leaving pre-Monterrey budgets unaffected. Aid flows beyond 2015 could be considerably higher than the current levels of aid,

even allowing for IFF bond repayments. Firstly, higher GNI will mean larger flows if the ODA/GNI ratio remains constant. Secondly, we expect that the ODA/GNI ratio will get closer to the 0.7% target by 2015. Political debate about how far aid budgets are committed and increased by 2015 will be essential but that debate would start from a higher base, as the IFF would have doubled the amount of aid received by recipient countries. The IFF would also provide donors with more time to reach 0.7% at a time of fiscal pressure.

WILL IT INCREASE DEVELOPING COUNTRY DEBT?

No - the IFF would disburse funds by way of grants or debt relief and so could reduce developing country debt. First, it could provide the additional resources needed for debt relief, without simply reallocating resources from one form of financing to another or from non-Heavily-Indebted Poor Countries (HIPC) to HIPC. Second, it is designed to provide grants to the poorest countries, ensuring debt sustainability. Its borrowing would not be financed by recipient countries but by the facility itself, using donor payment streams.

WOULD THE IFF BE A NEW AGENCY?

No – the IFF would be a temporary financing mechanism specifically designed to raise and allocate the money needed to make progress on meeting the MDGs by 2015. It would seek to use existing effective bilateral and multilateral disbursement mechanisms.

WOULD IFF BORROWING HAVE AN ADVERSE EFFECT ON THE COST OF BORROWING?

No – because the international market for bonds similar to those the IFF would issue is very deep. In 2002 funding programmes in AAA bonds issued by US agencies (Fannie Mae, Federal Home Loan Bank, and Freddie Mac), along with KfW, the European Investment Bank, IBRD, the regional development banks and Cades totalled around \$1,060 billion, of which \$360 billion was in international capital markets.

WHICH COUNTRIES WOULD BENEFIT FROM THE IFF?

Funds would be allocated according to a set of high-level principles to be agreed by donors. One of these principles might be to target funds to low-income countries, for instance, concessional loans. The allocation to countries and disbursement mechanisms would take account of donors' preferences. Information on the spread of countries receiving IFF funds would be freely available.

This proposal by Her Majesty's government is a bold one but not impossible. It will bring the poorest countries in the world in to the global market place and ensure that they are able to at least function at a level

which would be not possible before and in some countries of the south it will be a dream come true.

From the north in the context of the North –South dialogue which is fast becoming an East-West dialogue with the economic growth of such countries China and India, will be that these countries will be brought to a level of per capita income to be able to purchase goods and services from the north which they would not have been able to do so before,

Hence, this IFF facility will bring the poorest countries of the south in to the Global village of efficiency, productivity and possible growth and development in the future.

HOW DOES GOVERNANCE AFFECT PUBLIC SPENDING AND OUTCOMES?

The role of good governance has been emphasized in recent years as a key to development effectiveness. For example, it has been argued that merely allocating public resources for right goods and services may not lead to desirable outcomes if budget institutions—involving planning, management, and execution—are malfunctioning (World Bank 1998).

Research out of Georgetown University (Rajkumar 2002) and the World Bank (Swaroop 2002) highlight the fact that while this proposition above seems pretty straightforward and difficult to disagree with, no serious empirical work has been carried out to support it; the impact of public spending on outcomes at different levels of governance.

The basic idea is to examine the link between specific budget allocations and outcomes, and see how these relationships are affected with improved governance.

A number of past studies have looked at the link between public spending and outcomes (e.g., impact of public spending on economic growth or on other outcomes such as health status or education attainment). In cases where public spending is found to have low or negligible impact, two explanations are given: First, it is argued that the link between public spending and development outcomes could be severed because an increase in public provision could lead to a “crowding out” of provision by the private sector. This line of reasoning does not question the efficacy of public spending per se; instead, it contends that due to substitution by public for private spending, additional public provision in many cases has a negligible net marginal effect. The second set of possible reasons for the ineffectiveness of public spending includes poor targeting and/or institutional inefficiencies such as leakage in public spending and weak institutional capacity.

In providing assistance to developing countries, a common approach adopted by most donor agencies is to ask for increases in budgetary allocation for programs on education and health. While in most cases this may be necessary, it is certainly not, by itself, sufficient to ensure enhancement or improvement in actual service delivery. Bad budget management has frequently been cited as one of the main reasons why governments in developing countries find it difficult to translate public spending into effective services (World Bank 1998).

Characteristics of a public expenditure management system that contribute to the effectiveness of service delivery and lead to better outcomes

include: (a) a comprehensive and properly approved budget; (b) internal control mechanisms (including well functioning and transparent financial management and procurement systems) to ensure that funds are spent as intended; and (c) regular and timely reports to the legislature on actual expenditure in comparison to budgeted amounts. In the absence of such a system, public funds are likely to be wasted and/or misappropriated. A reasonable proposition, therefore, can be made: Managing public resources to promote development requires well-trained, skillful personnel, working in an institutional setting with an incentive system to reduce fraud and promote cost efficiency.

More specifically, there is a need to address the following three questions:

1. How effective is public spending in improving social indicators such as infant mortality? Could public resources help achieve better education outcomes?
2. What is the contribution of a public expenditure management system that promotes cost efficiency by reducing corruption in enhancing the link between public spending and social outcomes?
3. How important is the public sector's institutional capacity—in particular, human resources—in providing effective services that lead to better development outcomes?

The answers to these questions have important implications for enhancing the development effectiveness of public spending. Simply increasing public spending on health and education is less likely to lead to better outcomes if countries have poor governance. These findings are particularly relevant for developing countries, where, on average, the state of governance is quite poor. Two of the seven International Development Goals are: (i)

Achieving universal primary education in all countries by 2015; and (ii) lowering child mortality by three-fourths and infant mortality by two-thirds by 2015.

Increasing public spending on health and education is an easier option than improving governance, but as findings suggest the easier option may not lead to achievement of these goals.

JAMAICA AND THE LIFELONG EDUCATION DEVELOPMENT PARADIGM

Lifelong learning is education for the knowledge economy. In order for Jamaica to transition from a **Developing Country** to a **Developed Country** whether it be a Jamaica Labour Party Administration or a Peoples National Party administration it will be highly necessary to create a Knowledge based society, the inability to seriously overcome this challenge will mean we will be in transition to a developed country for an infinite number of years.

Within this lifelong learning framework, formal education structures—primary, secondary, higher, vocational, and so on—are less important than learning and meeting learners' needs (Dr Ralph Thompson may disagree here but, his thinking although quantitatively correct may lack the 3 dimensional response required for Jamaica to make the quantum leap required). It is essential to integrate learning programs better and to align different elements of the system. Learners should be able to enter and leave the system at different points. The learning system needs to include a multitude of players, such as learners, families, employers, providers, and

the state. Governance in the lifelong learning framework therefore involves more than just ministries of education and labor.

A knowledge-based economy relies primarily on the use of ideas rather than physical abilities and on the application of technology rather than the transformation of raw materials or the exploitation of cheap labor.

Knowledge is being developed and applied in new ways. Product cycles are shorter and the need for innovation greater. Trade is expanding worldwide,

increasing competitive demands on producers. The global knowledge economy is transforming the demands of the labor market throughout the world. It is also placing new demands on citizens, who need more skills and knowledge to be able to function in their day-to-day lives.

Equipping people to deal with these demands requires a new model of education and training, a model of lifelong learning. A lifelong learning framework encompasses learning throughout the lifecycle, from early childhood through retirement. It encompasses formal learning (schools, training institutions, universities); non-formal learning (structured on-the-job training); and informal learning (skills learned from family members or people in the community). It allows people to access learning opportunities, as they need them rather than because they have reached a certain age.

Lifelong learning is crucial to preparing workers to compete in the global economy. But it is important for other reasons as well. By improving people's ability to function as members of their communities, education and training increase social cohesion, reduce crime, and improve income distribution.

Developing countries like Jamaica, risk being further marginalized in a competitive global knowledge economy because their education and

training systems are not equipping learners with the skills they need. To respond to the problem, policymakers need to make fundamental changes. They need to replace the information-based, teacher-directed rote learning provided within a formal education system governed by directives with a new type of learning that emphasizes creating, applying, analyzing, and synthesizing knowledge and engaging in collaborative learning throughout the lifespan.

The emergence of the global knowledge economy has put a premium on learning throughout the world. Ideas and know-how as sources of economic growth and development, along with the application of new technologies, have important implications for how people learn and apply knowledge throughout their lives.

Lifelong learning is becoming a necessity in many countries, Jamaica is no different. It is more than just education and training beyond formal schooling. A lifelong learning framework encompasses learning throughout the lifecycle, from early childhood to retirement, and in different learning environments, formal, non-formal, and informal. Opportunities for learning throughout one's lifetime are becoming increasingly critical for countries to be competitive in the global knowledge economy. The Jamaican challenge in its transition from a developing to a developed country speaks to this on a daily basis as this movement to this the highest stage of the countries development appears to be a painful experience full of peril and promise.

Consideration of lifelong learning extends the traditional approach to education, in which sub sectors are examined in isolation. Many World Bank studies: In 1995 *Priorities and Strategies for Education* emphasized the need to look at the education system in a more holistic manner. The

1999 *Education Sector Strategy* discussed the role of new technologies.

In 1999, when he articulated the *Comprehensive Development Framework*, World Bank President James Wolfensohn referred explicitly to lifelong learning as a part of what education means for poverty alleviation. In 2002 the World Bank completed important new policy work on tertiary (higher) education reforms as well as a vision paper on the role of science and technology.

Many developing countries like Jamaica either have not read these reports or if they have do not grasp the serious importance or impact.

The challenges to education and training systems in developing countries like Jamaica that the knowledge economy presents requires policy options for addressing these challenges and developing viable systems of lifelong learning in developing countries like Jamaica.

Four questions need to be answered:

- What does a national education and training system, including its formal and non-formal components need to do to support knowledge-based economic growth?
- How can developing countries like Jamaica promote lifelong learning, and what challenges do they face in doing so?
- Given limited resources, what type of governance framework promotes lifelong learning for people in general and disadvantaged groups in particular?
- How can financing of lifelong learning be inclusive, affordable, and sustainable?

A conceptual framework for education-related learning activities reflecting the latest knowledge and successful practices of planning and implementing education for lifelong learning must be seriously examined.

In Jamaica we need to look beyond traditional approaches to education and training and to engage in a policy dialogue on the economic consequences of lifelong learning. Our failure to do so, we will remain a LIFELONG DEVELOPING COUNTRY, no pun intended.

JAMAICA AND THE " ANTI-VOICELESS SYNDROME"

What is the role of mass communications in strengthening voice and accountability in good governance and human development in a developing country like **Jamaica**? A long tradition of liberal theorists from Milton through Locke and Madison to John Stuart Mill have argued that a free and independent press within each nation can play a vital role in the process of democratization by contributing towards the right of freedom of expression, thought and conscience, strengthening the responsiveness of governments to all citizens, and providing a pluralist platform of political expression for a multiplicity of groups.

Recent years have seen growing recognition that this process is not just valuable in itself, but that it is also vital to the human development. The guarantee of freedom of expression and information is regarded as a basic human right in the Universal Declaration of Human Rights adopted by the UN in 1948, the European Convention on Human Rights, the American Convention on Human Rights, and the African Charter on Human and Peoples' Rights. In the words of the president of the World Bank, James D. Wolfensen, "A free press is not a luxury. A free press is at the absolute core of equitable development, because if you cannot enfranchise poor people, if they do not have a right to expression, if there is no searchlight on corruption and inequitable practices, you cannot build the public consensus needed to bring about change.

The growth in electoral democracies presents many potential opportunities for human development. The last quarter of the twentieth century

witnessed a dramatic expansion in political rights and civil liberties worldwide.

The proportion of states that are electoral democracies has more than doubled, and the number of democratic governments in the world has tripled.

Countries as diverse as the Czech Republic, Mexico and South Africa have experienced a radical transformation of their political systems through the establishment of more effective party competition, free and fair elections, and a more independent and pluralistic press.

It was hoped that these developments would expand the voice of the poor and disadvantaged and the accountability of governments, so that policymakers would become more responsive to human needs, and governments could be removed from power through the ballot box if citizens became dissatisfied by their performance.

Yet in practice, after the initial surge in the early 1990s, many electoral democracies in Latin America and the Caribbean, Central Europe, and Sub-Saharan Africa remain fragile and only poorly consolidated, often divided by ethnic conflict and plagued by a faltering economic performance, with excessive executive power in the hands of one predominant party and a fragmented opposition. The central danger, illustrated by these nations, lies in disillusionment with democracy, and even occasional reversals. Achieving their full democratic potential depends on widening and deepening the institutions of voice and accountability, which commonly remain deeply flawed. The key issue examined here is whether there is systematic evidence

that channels of mass communications play a vital role in strengthening good governance and human development, as many commonly claim.

An extensive review of the literature and research in this area by numerous individuals suggests that the mass media will have a positive impact on democratization and human development if they function effectively as a watchdog holding the powerful to account and as a civic forum facilitating a diversity of voices in public debate. Yet in practice the press is often limited in these roles, and in many authoritarian regimes, far from serving the needs of the public, the channels of communication reinforce state control and the power of established interests. Liberal theories have long stressed the importance of an independent press as a check on the abuse of power.

This is necessary but not sufficient, in particular media systems strengthen good governance and promote positive development outcomes most effectively under two conditions: (i) where channels of mass communications are free and independent of established interests, and in addition (ii) where there is widespread diffusion and public access to these media. Both independence and access are required.

Freedom of the press by itself is insufficient to guarantee development outcomes if poor people are excluded from media markets and the information resources provided by newspapers, radios, television, and now Internet technologies. Moreover media access is insufficient, if the press is subservient to established interests, uncritical of government failures, and unable to hold the powerful to account for their actions.

Media systems characterized by widespread mass access and by an independent free press are most closely associated with systematic indicators of good governance and human development. In particular, nations with these types of media system experience less corruption, greater administrative efficiency, higher political stability, and more effective rule of law, as well as better social outcomes such as higher per capita income, greater literacy, lower economic inequality, lower infant mortality rates, and greater public spending on health.

The lessons from this analysis suggest that strengthening the channels of communication is vital for development, particularly for electoral democracies that are in the process of establishing more effective political and economic institutions. Although commonly assumed, the systematic evidence supporting these claims remains scarce.

The research indicate that in societies where press freedom is combined with widespread access to the mass media this is positively associated with good governance and with human development, through the role of the press in promoting the voice of disadvantaged groups in the policymaking process and strengthening the accountability of governments to citizens.

How does Jamaica measure up? I guess this question will never be truly answered or will it?

JAMAICA AND THE MSE BUSINESS REVOLUTION

It is an acknowledged fact that Micro Small Enterprises (MSE) with well-established policy initiatives and guidance has solved unemployment problems along with the necessary business development assistance agencies guidance.

The 1996 National Survey of Non-Agricultural Micro and Small Businesses indicated that there were an estimated 93,110 micro and small enterprises in operation in Jamaica in 1996. Current estimates place the number of micro and small enterprises in excess of 200,000.

What would happen if in Jamaica we had a **National Micro Small Enterprise Programme (NMSEP)**, instead of the adhoc way in which we treat MSE's in Jamaica?

For purposes of this program, micro enterprises are defined as enterprises employing four or fewer persons whereas small enterprises are defined to have between five and 33 employees. The primary business activities of the MSE sector are wholesale/retail (63%), personal services (11 percent) and restaurants/hotels (9.6 percent), other (16.4%).

This could be achieved in two phases with say \$US15 million dollars, the effect of which could see a tremendous growth in the MSE sector which would create wealth in multiples of the above figure.

The primary challenges of the program would be twofold: (i) to strengthen the policy and institutional framework for the MSE sector and (ii) to move from a government donor subsidized credit system for micro and small

enterprises to a system under which financial and non-financial services are provided to MSEs on commercial terms.

The program would involve two complementary and discrete phases: sequencing of the phases is critical to the long-term success of the program. Phase I would be designed to include components of institutional development as well as the modernization of the regulatory and sector framework for MSEs. Once this foundation is built and certain defined performance criteria are met, Phase II would commence. The evaluation tools to be used as benchmarks for progression to Phase II would be developed to measure progress made by both the public and private sectors in the advancement towards a sustainable and commercially viable MSE sector.

The decentralization of authority and regulation of the MSE sector has led to some inconsistencies within the sector. One example of such an inconsistency is that different interest rate policies are imposed upon Community Development Funds and Micro finance Organizations although both entities lend to MSE. An interest rate ceiling of 28 percent has been applied to Community Development Funds whereas Micro Finance Organizations have no interest rate ceiling.

Successful MSE development in Jamaica will depend as much on alleviating the existing policy and administrative constraints as on creating an overall favorable business environment for enterprises of all sizes. Constraints that need to be addressed fully include improved business administration procedures (such as company registration) and reforms in the areas of taxes and customs. Initiatives by donor agencies such as USAID, EU and CIDA have been undertaken to alleviate some of these concerns, but these

initiatives have been conceived as isolated interventions. Coordination among donors is necessary in order to maximize the benefits of such initiatives for the MSE sector.

Surveys of Jamaican small and micro entrepreneurs indicate that access to financial services, specifically capital and credit, is one of the most important constraints for establishing and developing their businesses. According to some estimates, as much as 85% of all small and micro-entrepreneurs have no access to credit from formal sources and rely overwhelmingly on self-financing and financial resources of family members, including transfers from overseas, as well as a variety of informal financing arrangements.

In order to increase the number of qualified financial institutions serving the MSE, actions need to be taken to mitigate the perceived high risk of the MSE sector. Reliable collateral registries and credit bureaus need to be established to facilitate this objective. Although the need for these measures is not unique to MSE, it is necessary that to the extent possible, any initiatives in these areas include MSEs. International and bilateral agencies have initiated activities in these areas and coordination among stakeholders is critical to maximize potential benefits to MSEs.

Clearly, a serious look at the **National Micro Small Enterprise Programme (NMSEP)** could lead to serious poverty alleviation and empowerment and resuscitate economic growth and hence economic development.

JAMAICA AND THE NEW MONETARY POLICY PARADIGM

In recent times there has been much discourse on the practice of Monetary Policy in Jamaica.

In fact many analysts, politicians, talk show hosts and their friends have seen it in many instances as the sole reason for the decline in growth rates in Jamaica, the collapse of poorly managed and uncompetitive businesses who had lost national, regional and global market share due to the rapid onslaught of globalization. Is this a fair assessment of Monetary Policy as practiced in Jamaica? Or has the policy evolved and now part of the **New Monetary Policy Paradigm?**

Recent joint research out Bard College in United States and the University of Leeds in the United Kingdom speak to a New Monetary Policy Paradigm, is Jamaica operating within this paradigm?

Current monetary policy involves the manipulation of the Central Bank interest rate (the repo rate), with the specific objective of achieving the goal(s) of monetary policy. The latter is normally the inflation rate, although in a number of instances this may include the level of economic activity (the U.S. Federal Reserve monetary policy is a good example of this category). This raises two issues. The first is the theoretical underpinnings of this mode of monetary policy. The second is the channels of monetary policy or, more concretely, the channels through which changes in the rate of interest may affect the ultimate goal(s) of policy. It is suggested that it is imperative to consider the empirical estimates of the effects of monetary policy. Results were drawn from the Eurozone, the U.S.

and the UK and suggest that these empirical results point to a relatively weak effect of interest rate changes on inflation. It also suggest, on the basis of the evidence that monetary policy can have long-run effects on real magnitudes. This particular result does not fit comfortably with the theoretical basis of current thinking on monetary policy and as such speak to a New Monetary Policy Paradigm.

What are the implications of this new framework for macroeconomic analysis?

- 1) The degree of the impact of interest rates, given the importance of manipulating interest rates for monetary policy purposes.
- 2) The role of money supply, whether or not it plays a casual role or not.

The theoretical literature assumes a closed economy under ceterus parabus conditions ie all being equal.

However, monetary policy is seen to also work via the exchange rate. The New Paradigm using the latter is based on open economies, linking the theory to the praxis. Three criteria are assumed:

- 1) The price level does not affect long-term real equilibrium.
- 2) Inflation is neutral.
- 3) The absence of path dependency whether relating to the experience of unemployment or in terms of investment adding to capital stock.

What does this mean?

This leads to the conclusion that the non-accelerating rate of Unemployment is unaffected by the time path of the economy and the rate of growth of the economy is in effect predetermined.

Further there is no long run trade off between inflation and unemployment or between inflation and output. The long run determination of unemployment and output is thought to depend on the supply side of the economy and the flexibility of labour markets in particular.

This 'new' approach to monetary policy has emerged over the past decade or so.

This approach has largely dispensed with any role for the stock of money in influencing economic variables and with any policy prescription to target the supply of money. Within this new approach, monetary policy becomes identified with interest rate policy, with little or no reference to the stock of money (on any measure of money). It has generally been the case that setting an inflation target is the main (and often the only) objective of monetary policy. Indeed, monetary policy can be seen as aggregate demand policy in that the interest rate set by the Central Bank is seen to influence aggregate demand, which in turn is thought to influence the rate of inflation. Monetary policy has become the only policy instrument for the control of inflation, but it can at best only address demand inflation.

The main features of this 'new' approach have been discussed, and it has been suggested that some of these can be captured in a simple macroeconomic model. However, that simple model needs to be complemented by a discussion of the many channels through which monetary policy is seen to operate. The recognition of these channels means that the chain from a change in the Central Bank discount rate to

the final target of the rate of inflation is a long and uncertain one. In light of the relationship between the exchange rate and the interest rate in the interest rate parity approach, there are constraints on the degree to which the domestic interest rate can be set to address the domestic levels of aggregate demand and inflation. In view of the central place given to monetary policy in macroeconomic policies and the length of the chain from Central Bank interest rate to rate of inflation, it is important to consider the empirical estimates of the effects of monetary policy.

Results drawn from the Eurozone, the U.S. and the UK, and have suggested that these empirical results point to a relatively weak effect of interest rate changes on inflation.

Does any of this appear to be familiar with circumstances, as it has occurred in Jamaica?

or are the latter assumptions and behaviour of the New Monetary Policy Paradigm overstated? Think again.

JAMAICA AND THE SERVICES INDUSTRY: THE WAY FORWARD

“The World Bank has come out in support of the ‘Doing Business in 2004 Report’, which has ranked Jamaica among the top 10 best countries to do business in.”

Minister of Development, Dr. Paul Robertson

However the following report *Doing Business in 2005: Removing Obstacles to Growth*, did not mention Jamaica in its top 20 countries this year. What could have caused Jamaica to fall from grace 12 months later? Hypercompetition, i.e. the intense competitive environment in which the global village operates, amongst other things to put it euphemistically.

The top 20 economies in terms of ease of doing business are New Zealand, United States, Singapore, Hong Kong/China, Australia, Norway, United Kingdom, Canada, Sweden, Japan, Switzerland, Denmark, Netherlands, Finland, Ireland, Belgium, Lithuania, Slovakia, Botswana, and Thailand.

Slovakia and Colombia were the world's most successful investment climate reformers over the past year, creating electronic one-stop shops for new businesses, shrinking regulatory delays by weeks, improving credit registries, and increasing the flexibility of labor laws, according to a new report from the World Bank Group.

Minister Paul Robertson, at the Launch of the World Investment Report 2004 stated clearly, the way forward for Jamaica is in the area of services. In an environment in what counts is what works, we looked at the highly successful case study of the services revolution in India. Similarly, in the 1960's Lee Kuan Yew came to Jamaica to examine the then Jamaica success model, he then went back to Singapore, duplicated and improved on it; perhaps we can do the same with other successful models such as the Indian model.

A striking feature of India's growth performance over the past decade has been the strength of its services sector. (Gordon and Gupta 2004).

on average services grew more slowly than industry between 1951 and 1990. Growth of services picked up in the 1980s, and further accelerated in the 1990s, when it averaged 7.5 percent a year, thus providing a valuable prop to industry and agriculture, which grew on average by 5.8 percent

and 3.1 percent respectively. Most forecasters expect that services will grow at similar if not higher rates over the next few years. Growth in the services sector has also been less cyclical and more stable than growth in industry and agriculture.

The emergence of services as the most dynamic sector of the Indian economy has in many ways been a revolution. The most visible and well-known dimension of the take-off in services has been in software and information technology (IT)-enabled services (including call centers, software design, and business process outsourcing). However, growth in services in India has been much more broad-based than IT. In fact, although IT exports have had a profound impact on the balance of payments, the sector remains a small component of GDP.

As of 2003, business services (which includes IT) were only about 13¼ percent of GDP, accounting for just 3 percent of total services output. Almost all service subsectors in India have grown faster than GDP over time, but the pick-up in growth in the 1990s was the strongest in business services, communication, and banking services, followed by hotels and restaurants and community services. These activities together account for the entire acceleration in services growth in the 1990s. The growth in public administration and defense, real estate, storage, transport, and personal services in the 1990s was broadly similar to that in the previous decades.

Rapid growth of the services sector is not unique to India. The existing literature shows that as an economy matures the share of services in output increases consistently. To begin with, the increase occurs along with an increase in the share of industry. Thereafter, the services share grows

more rapidly, accompanied by a stagnant or declining share of the industrial sector. Consistent with this trend, India's growth experience has been characterized by a decline in the share of agriculture in GDP and an increase in the shares of industry and services. Between 1951 and 2000, the share of agriculture in GDP fell from 58 to 25 percent, while the share of industry increased from 15 to 27 percent, and the share of services rose from 27 to 48 percent. Of particular note are the changes during the 1990s, when the share of services in India's GDP climbed by about 8 percentage points, as compared to a cumulative increase of 13 percentage points during 1951–90. The share of industry, by contrast, remained constant during the 1990s.

What are the factors behind the dynamism of the services sector in India? One explanation suggested in the literature for fast growth in services is that the income elasticity of demand for services is greater than one. Hence, the final demand for services grows faster than the demand for goods and commodities as income rises. Another explanation is that technical and structural changes in an economy make it more efficient to contract out business operations that were done internally by individual firms. This type of outsourcing has been called the "splintering" of industrial activity. Splintering results in an increase in net input demand for services from the industrial sector, and the services sector growing proportionately faster than other sectors.

The empirical evidence presented shows that while splintering and high-income elasticity of demand for services have served to stimulate services growth in India; it is necessary to look beyond these factors to fully explain

the growth acceleration in the 1990s. In particular, important roles also seem to have been played by economic reforms, and growing demand for services exports.

Looking forward, our analysis suggests that the Indian services sector may experience an extra impetus to growth in coming years from exports and from liberalization. New markets for Indian services exports are just beginning to be tapped and there is substantial scope for further high growth rates in tradable services. There is also scope for considerable growth from liberalization and the associated productivity gains in some of the services subsector where growth has lagged behind in the 1990s. The distribution sector seems to be a prime candidate in this regard.

One caveat to our analysis is that the quality of the Indian national accounts data on services does not appear to be strong. Acharya (2003) shows that actual estimation of certain services is rather indirect and based on imprecise assumptions and lagged information. He also raises the issue that the change of base year to 1993–94 in the data may have affected the continuity of data and inflated the output of services sector in the 1990s. While there is merit in these arguments, there is, unfortunately, no easy way to verify the data quality. However, the comparability of data can be assessed over time by looking for a distinct break in the time series. In this context, we could not find evidence of any significant breaks, including in 1993–94. On the contrary, what we see is the growth acceleration in different service activities starting in different years, and also to be spread over a number of years rather than being confined to just one year.

Which services have grown rapidly? A comparison of the actual and the trend growth rates shows that growth in several service sub-sectors accelerated sharply in the 1990s (and for banking in the 1980s); indicating some sort of a structural break in their growth series. We call these

Activities, fast growers. The remaining activities grew more or less at a trend rate; these we call trend growers (Gordon and Gupta 2004)

FAST GROWERS

Based on the above criterion, fast growers were as follows:

- **Business services** (including IT) was the fastest growing sector in the 1990s, with growth averaging nearly 20 percent a year. Though disaggregated data for this category are not available, export and software industry data indicate that the growth was mainly on account of the IT sector. Despite being the fastest growing sector, business services, particularly IT activity, was growing off a low base and its contribution to the services sector and GDP growth was quite modest in the 1990s. As we discuss later, this segment is expected to continue growing at a very high rate and is likely to contribute more significantly to services growth in the future.
- **Communication services**, which registered growth of 14 percent a year during the 1990s, made a significant contribution to services growth. The growth in communication was mostly due to telecom, which accounts for 80 percent of output.
- in the **banking sector**, growth jumped from about 7 percent over the period 1950–80, to 12 percent in the 1980s, and 13 percent in the 1990s. Growth was most rapid in the NBFIs (which grew by 24 percent in the 1980s and 19 percent in the 1990s), followed by growth in the banks (by 10 percent and 9 percent, respectively, in the 1980s and 1990s). Overall, the contribution of banking to services sector growth was larger than that of the communications sector.

- **Community services and hotels and restaurants** increased at the trend growth rate through the early 1990s, but experienced a pick up in growth in the latter part of the decade. In community services, this was due to both education and health services (70 percent and 23 percent of value added, respectively) growing at an average rate of 8 percent in 1990s.

TREND GROWERS

Among the trend growers, the growth rate of distribution services (the largest service subsector in India), averaged about 6 percent in the 1980s, higher than in previous decades, and accelerated further to about 7 percent in the 1990s—just below the threshold for fast growers.

The rate of growth of public administration and defense in the 1990s averaged 6 percent, which was similar to the growth experienced in previous decades. Growth spiked in response to the Fifth Pay Commission awards to government employees in the late 1990s, but this did not substantially increase average sector growth for the decade as a whole.

The growth rate of personal services jumped to 5 percent in the 1990s, but remained below the growth in most other services activities. The other sub-sectors such as transport, dwellings, and storage grew more or less at the same rate in the 1980s and 1990s as in previous decades.

The fast growing activities accounted for about a quarter of services output in the 1980s, but because of their relatively fast growth, these activities represented one-third of services output by 2000. We show the estimation of the average contribution of the fast growers and trend growers to services growth in the 1950s–1970s, the 1980s, and the 1990s.

Based on our estimates, the high services growth in the 1980s was primarily due to the trend growing sub-sectors. These activities added

about 1 percentage point of additional services growth in the 1980s, while fast growing activities made a contribution only about half as large. In the 1990s, by contrast, fast growing sectors made about the same contribution to services growth as the trend growing sectors. In fact, since the growth of trend growing sectors was about the same in both decades, the fast growers collectively accounted for almost all of the higher services growth in the 1990s. This is consistent with new activities and industries having sprung up in the fast growth sub-sectors, but not in the trend growth ones.

How do we explain this services sector growth? A number of studies have attempted to explain the fast growth in the share of services activity observed in cross-country data. The literature draws a distinction between demand and supply factors (Kravis, 1982, Francois and Reinhart, 1996). On the supply side, the output share of services can be boosted by a switch to a more services-input intensive method of organizing production. Such a change in production methods can arise as a result of increasing specialization as the economy matures. For example, over time, industrial firms may make greater use of specialist sub-contractors to provide services that were previously provided by the firms themselves. Legal, accounting, and security services are obvious candidates to be contracted out. Bhagwati (1994) calls this process of specialization splintering. Kravis (1982) points out that splintering can lead to growth in the share of services in GDP, even when GDP itself is not growing. On the demand side, an increase in the output share of services can arise from rapid growth in the final demand for services. This could be from domestic consumers with a high income elasticity of demand for services, or from foreign consumers with a growing demand for the country's service exports. Demanded

growth of this type is likely to result, at least initially, in a rise in the prices of services, as well as a shift of resources into the production of services.

Services activity can also be stimulated by technological advances, whereby new activities or products emerge as a result of technological breakthrough—such advances are likely to be particularly relevant in the case of the IT and telecommunication sectors and to some extent in financial services (credit cards, ATMs etc.). Liberalization can also provide a boost to services. In India, important policy reforms were made in the 1990s, which were conducive to the growth of services sector, such as deregulation, privatization and opening up to foreign direct investment (FDI). If the growth of services was previously inhibited by government controls, then policy changes may provide a positive shock that unleashes new activity and growth.

In common with the experience of many other countries, the services sector in India has grown faster than agriculture and industry. As a result, the share of services in GDP has increased over time. In the 1990s, services growth was particularly strong, and this has led to the services share in output being relatively large in India compared with other countries at similar levels of development. What is also striking about India's growth experience is that the services sector does not appear to have created many jobs. Admittedly the employment data suffer from limitations. Nonetheless, unlike the experience of many countries where productivity growth in the service economy has tended to lag behind that of other sectors, it appears that the Indian services sector has been characterized as experiencing increasing labor productivity.

The acceleration in growth of the services sector in India in the 1990s was due to fast growth in communications, banking services, business services (IT), and community services (education and health). The remaining sectors grew at a constant or trend growth rate. We have shown that factors such as high-income elasticity of demand and increased input usage of services by other sectors have played an important part in elevating services growth. Also important, at least in the 1990s, have been factors such as economic reforms and the growth in foreign demand for services exports. Significant productivity gains appear to have occurred in the faster growing sectors, leading to a decline in their relative prices.

Our findings suggest that there is considerable scope for further rapid growth in India's service economy. That Indian services exports have strong future growth prospects is well known, but we also find that there is considerable scope for further rapid growth in other segments provided that deregulation of the services sector continues. Nevertheless, it is imperative that the industrial and agricultural sectors also grow rapidly. The relatively jobless nature of growth in India's services sector further underscores this need.

JAMAICAN DEMOCRACY AND PUBLIC EXPENDITURE

Countries vary systematically with respect to the incentives of politicians to provide broad public goods and to reduce poverty. Even in developing countries that are democracies, politicians often have incentives to divert resources to political rents and to private transfers that benefit a few citizens at the expense of many. These distortions can be traced to imperfections in political markets that are greater in some countries than in

others. In reviewing the theory, there is evidence of the impact of incomplete information of voters, the lack of credibility of political promises, and social polarization, on political incentives. There are strong arguments that the effects of these imperfections are large but insufficiently integrated into the design of policy reforms aimed at improving public good provision and reducing poverty.

Misallocation has persisted despite major changes in the way in which governments are selected and remain in office. From 1990 to 2000, the number of countries governed by officials elected in competitive elections rose from 60 to 100 (Beck and others 2001, Database of Political Institutions).

A large fraction of voters in many of these countries are low income, if not poor in the strictest and most technical sense of the word. Democratization might be expected to benefit these voters. However, policymakers in poor democracies regularly divert expenditures away from those areas that most benefit the poor, or fail to implement policies that improve those services from which the poor are known to benefit disproportionately.

One way in which governments can accelerate economic development is through their decisions regarding public expenditures. Keefer and Khemani (2003) are of the opinion if allocated appropriately, public expenditures can overcome market failures that exacerbate poverty, such as the inability of the poor to borrow for education, their lack of information about preventive health care, or the externalities that exacerbate public health hazards to which the poor are most exposed. However, distortion and misallocation of public expenditures are common and often undermine development.

Public expenditures flow to wage bills for bulky state administrations, to farm subsidies absorbed by the wealthiest farmers, or to public works

projects with limited public utility, all at the expense of quality public services.

In most countries, the distribution of income is skewed to the right—towards the higher end of the income spectrum—so that the income of the median voter is less than the average income of all voters. Under these circumstances, government should be larger and social services should be correspondingly more extensive (Meltzer and Richard 1981).

However, this prediction actually exacerbates the puzzle of why many countries severely under-provide social services, since it is in many countries where the poor are the median voters that social services are often the most woeful. Moreover, there is little evidence that redistribution is greater in countries with greater income inequality (Knack and Keefer 1997).

There are numerous imperfections in political markets that help to explain this puzzle.

It is important to focus on three political market imperfections that are particularly important in distorting political incentives to provide high quality public services:

- Lack of information among voters about politician performance;
- Social fragmentation among voters manifested as identity-based voting;
- And lack of credibility of political promises to citizens.

Existing efforts to improve the quality of public policy towards the poor may fall far short of achieving their goals unless they are expanded to address specifically these imperfections.

Broad public services most important to the poor—health and education—are also the services most vulnerable to these three distortions of the

political marketplace. It is especially difficult for voters to assess the quality and efficiency of service provision and to evaluate the responsibility of specific political actors for service breakdowns. By the same token, political competitors find it especially difficult to make credible promises about service provision. Moreover, politicians in many countries can only make credible promises to narrow groups of voters. For these voters, it may be politically more efficient to promise narrow targetable goods, such as infrastructure provision, than it is to promise improvements in broad public services. Social fragmentation in the electorate exacerbates these problems of voter coordination in determining reward and punishment based upon political actions towards the quality of public services. To the extent that in developing countries, poor voters are more likely to vote in uninformed ways, being susceptible to campaign slogans, or polarized along non-economic ideological dimensions such as religion or ethnic identity, and political promises are particularly lacking in credibility or prone to what the late professor Carl Stone spoke to, clientelism, it is precisely the broad social services that are most likely to suffer.

Theory and evidence suggests that the impact is large, and largest for those social services such as education and health that are most important to the poor. Information gaps, social polarization and the absence of credible political competitors lead to the under provision of government services to the least informed, to the most polarized and to the vast majority who do not have personal connections with a powerful patron.

Though there are many important efforts experimenting with different ways to improve the ability of the poor to secure their own interests in government decision-making, to “empower” them, the design of these typically does not explicitly address the underlying political market

imperfections. Legislative reservations for minority groups in India, decentralization in Pakistan, and participatory budgeting in Brazil, for example, are all most effective to the extent that they overcome the underlying political market imperfections that notably impair governments services to the poor. As the earlier discussion of the effects of reservations in India suggests, the improvements wrought by these reforms may be only partial to the extent that they leave unchanged many aspects of the political marketplace.

Two types of decentralization, in particular, are often seen as responses to inadequate central government attention to social service delivery. The political economy analysis here has implications for both:

- Decentralization of responsibilities for the provision of local public goods to the level of locally elected village and municipal governments;
- And greater autonomy of decision-making at the level of service providers such as schools and clinics, with greater participation of citizens through community based organizations such as parent-teacher associations and health committees.

For decentralization to have a positive impact on social services, the following conditions must be satisfied:

- One, voters must be more likely to use information about the quality of local public goods in making their voting decisions for local elections;

- And two, political promises to voters at large must be more credible, than when decision-making over local public goods was in the hands of regional or national governments. Theoretically, the impact of decentralization on informed voting and political credibility could go in either direction.

Voters may use more information about local public goods in their voting decisions because such information is easier to come by and coordinate upon, perhaps given a more restricted set of responsibilities and greater observability of actions of local governments; and political agents may have greater credibility because of proximity to the community and reputation developed through social interaction over an extended period of time.

Keefer, Narayan and Vishwanath 2003, on the other hand, are of the opinion local voters may be apathetic to local elections and have little or no information about the resource availability and capability of local governments, if resources are concentrated in higher tiers of government; social polarization may be more intense at more local levels due to age-old differences across settled communities, and perhaps weaker at the national level owing to national campaigns of nation-building; and clientelist promises to a few voters may be easier to make and fulfill due to closer social relations between the elected representatives and their clients .

Credibility, like information, is particularly likely to be problematic in developing countries and also requires special attention. Here the key is to bring together two key strands of assistance to countries; one strand, by far the most important, to provide support for better education or health

outcomes, and the other strand, to support political party development and the development of political institutions. These strands are brought together when outside interventions that help politicians both implement and take credit for broad public good improvements can lead to sustainable improvement in public good provision, if they help politicians build a reputation for performance. This is challenging – it means specifically that aid be provided for education and health especially in those cases where politicians have made emphatic, public and verifiable promises regarding health and education, which is not common in many developing democracies.

Social polarization can have harmful effects on social service provision, just as on other aspects of civic life. One response of outside intervention is to insist that criteria other than those related to social cleavages determine access to resources. This may not be practical; for example, if one group is poorer than the other, redistributive transfers on the basis of income will always favor that group. Other responses depend on the sources of polarization.

The response to pure taste-based affiliations (voting systematically for the representatives of one particular ethnic group or tribe out of an exogenous and strong preference for anyone from that group or tribe over any other candidate) demands educational responses to moderate these tendencies. Strong signals from the center about the inappropriateness of such behavior or preferences

can, over time, soften them, if not eliminate them entirely. However, if polarization is due to tremendous imperfections in political and economic markets, as is more often the case, so that people retreat into the groups with which they have the strongest personal links and the greatest hope of accessing resources, the appropriate response is to assist in reforms that remove those imperfections.

How does Jamaica measure up? You be the judge.

JAMAICAN PRIVATE SECTOR AND THE KNOWLEDGE SOCIETY

In the past decade or so, much research has been conducted on productivity-led economic growth and its determinants. A major reason is the widespread belief that economic growth due to rapid factor accumulation is subject to diminishing returns, and hence is not sustainable. Recently, there has been a growing interest in the contribution of **knowledge** to total factor productivity growth, and consequently to sustainable long-term economic development (Chen & Dahlman 2004).

The thinking here is nothing new as the Newly Industrialized Countries (NIC's) of S. E. Asia discovered this 15-20 years ago and much of their successes can be accredited to the building of strong Knowledge based economies. In Jamaica, the government speaks to this in a limited way in their **Public Sector Modernisation Vision And Strategy 2002-2012 September 2002**, by outlining their approach over a ten-year period as follows:

In order to achieve good governance the government have set the following strategic objectives: Creation of a Knowledge Society, which is fundamental to informed decision-making and concerted action, by:

- Facilitating access to information through all available media

- Publishing better designed and user-friendly brochures on policy, procedures and government services
- Putting in place systems and structures to effectively implement the requirements of the Access to Information Act
- Appointing dedicated liaison officers to provide information to the public in all departments and other agencies.

However, I am unable to locate any similar commitment from the Private sector In Jamaica. Perhaps they consider it a government initiative and not theirs.

Economic research on knowledge comes in various forms. For example, there has been much research on the importance of human capital, in terms of education and/or skills, to economic growth. Similarly, research has been conducted on innovation and research and development (R&D) that lead to new technology, which ultimately leads to increases in output per capita. In addition, there has been some focus on the effects of information and communication technologies (ICTs) on the flow of knowledge and information and its ultimate effect on economic growth. In view of the above, we look at various aspects of knowledge on economic growth, and by doing so; we highlight the concept of the knowledge economy, an economy in which knowledge acts as the main engine of growth.

The literature speaks to four preconditions that lead to knowledge becoming an effective engine of growth. These are:

- An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.
- An educated and skilled population to create, share, and use knowledge well.
- A dynamic information infrastructure to facilitate the effective communication, dissemination, and processing of information.
- An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilates and adapt it to local needs, and create new technology.

The amount of knowledge and how it is used are key determinants of total factor productivity. Strengthening the above four pillars of the knowledge economy will lead to an increase in the quantity and quality of the pool of knowledge available for economic production. This will consequently increase productivity and thus economic growth.

Economic theory postulates that knowledge leads to increases in total factor productivity and hence economic growth. However, unlike traditional factors of production, knowledge is not subject to diminishing returns. The increased creation, use, adoption and flow of knowledge in various forms will significantly improve the prospects of sustainable long-term economic development for many countries.

We argue that knowledge can become the main engine of growth if the economy satisfies certain preconditions. These preconditions as stated

above include a sufficiently high level of quality human capital stock, a high intensity of domestic innovation and technological adoption, the information and communications infrastructure is well established, and the overall economic and institutional regime is conducive for knowledge to propagate and become the driving force behind productivity and economic growth.

Chen & Dahlman (2004) using an array of indicators, each of which represents an aspect of knowledge, as independent variables in cross-section regressions that span 92 countries for the period 1960 to 2000, provides empirical evidence indicating that knowledge is a significant determinant of long-term economic growth. In other words, we find that the stock of human capital, the level of domestic innovation and technological adaptation, and the level of information and communications technologies infrastructure all exert statistically significant positive effects on long-term economic growth.

More specifically with regard to the growth effects of the human capital stock, we find that an increase of 20 percent in the average years of schooling of a population tends to increase the average annual economic growth by 0.15-percentage point.

In terms of innovation, we find that a 20 percent increase in the annual number of patents granted is associated with an increase of 3.8 percentage points in annual economic growth.

Lastly, when the ICT infrastructure is measured by the number of phones per 1,000 persons is increased by 20 percent; we find that annual economic growth tends to increase by 0.11 percentage point.

In line with existing literature, the results also show that the overall health of the economy and quality of institutions are important determinants of economic growth. However, the inclusion of such variables renders many of the human capital and ICT variables to have estimated coefficients that are no longer statistically significant. In contrast, the majority of our innovation variables produce coefficients that retain the positive sign and statistical significance.

The relative robustness of the innovation variables may suggest that innovation and technological adoption may be the dominant facet of knowledge for economic development. However the research was not complete on this point.

Finally, in order for Jamaica to transition from a **Developing Country** to a **Developed Country** whether it be a Jamaica Labour Party Administration or a Peoples National Party administration it will be highly necessary to create a Knowledge based society, the inability to seriously overcome this challenge will mean we will be in transition to a developed country for an infinite number of years.

JAMAICA'S TOURISM POTENTIAL

The importance of travel & tourism to the Caribbean is indisputable. However, the industry's potential is a long way from being fully tapped, and both government and industry will have to overcome a number of challenges to ensure sustainable long-term growth.

Jean-Claude Baumgarten

President, World Travel & Tourism Council

The question that needs to be asked with regards to the impact of tourism on Jamaica is do we in Jamaica know the real potential of the industry?

The World Travel And Tourism Council (WTTC) the business leaders' forum for travel & tourism, works with governments to raise awareness of the importance of the world's largest generator of wealth and jobs: Tourism.

The WTTC in association with The Oxford Economic Forecasting Group, produced the 2004 Tourism Satellite Accounting report. Founded in 1981, OEF is now one of the world's leading providers of economic analysis for businesses large and small, international organisations; government departments and central banks with over 300 clients worldwide. OEF offers consultancy across a broad span of economic issues, drawing on its own staff and the close links it maintain with Oxford University and a range of partner institutions in Europe and the US.

This 2004 report for Jamaica is the fourth set of Tourism Satellite Accounting research that Oxford Economic Forecasting (OEF) has prepared for WTTC.

The message from this year's research is generally positive on a global basis for a healthy return to growth. On a more specific basis in 2004, Jamaica's Travel & Tourism Industry is expected to generate 11.8% of GDP and 130,312 jobs, while the broader Travel & Tourism Economy is expected to total 36.0% of GDP and 387,403 jobs. Looking ahead, the forecast for Travel & Tourism Demand is expected to total 12.0% real growth in 2004, and 3.9% real growth per annum between 2005 and 2014.

This WTTC research quantifies and documents the Travel & Tourism economics for Jamaica, the first step towards addressing mission-critical issues such as tourism management, tourism marketing and promotion, tourism infrastructure, taxation, aviation policy and much more.

TOTAL DEMAND

Jamaica travel & tourism is expected to generate JMD207.3 bn (US\$3,300.7 mn) of economic activity (total demand) in 2004, growing (nominal terms) to JMD568.8 bn (US\$6,852.8 mn) by 2014. Travel & tourism demand is expected to grow by 3.9% per annum, in real terms, between 2004 and 2014.

EMPLOYMENT

Jamaica T&T economy employment is estimated at 387,403 jobs in 2004, 31.8% of total employment, or 1 in every 3.1 jobs. By 2014, this should total 538,957 jobs, 38.1% of total employment or 1 in every 2.6 jobs. The 130,312 t&t industry jobs account for 10.7% of total employment in 2004 and are forecast at 190,193 jobs or 13.5% of the total by 2014.

GROSS DOMESTIC PRODUCT

Jamaica's t&t industry is expected to contribute 11.8 per cent to gross domestic product (GDP) in 2004 (JMD54.7 bn or us\$870.5 mn), rising in nominal terms to JMD161.8 bn or us\$1,948.8 mn (14.8 per cent of total) by 2014. The t&t economy contribution (percent of total) should rise from 36.0 per cent (JMD166.3 bn or US\$2,647.8 mn) to 42.9 per cent (JMD 467.5 bn or us\$5,631.9 mn) in this same period.

CAPITAL INVESTMENT

Jamaica travel & tourism capital investment is estimated at JMD40.0 bn, US\$636.6 mn or 32.3 per cent of total investment in year 2004. By 2014, this should reach JMD94.8 bn, US\$1,142.1 mn or 32.9 per cent of total.

PERSONAL & BUSINESS

Jamaica personal travel & tourism is estimated at JMD25.7 BN, US\$408.8 mn or 8.4 per cent of total personal consumption in year 2004. By 2014, this should reach JMD62.5 bn, US\$752.9 mn or 8.8 per cent of total consumption. Jamaica business travel is estimated at JMD 9.7 bn, US\$154.4 mn in year 2004. By 2014, this should reach JMD24.5 bn or US\$295.2 mn.

Personal Travel & Tourism, more formally known as consumer expenditures, which captures spending by economy residents on traditional Travel & Tourism services (lodging, transportation, entertainment, meals, financial services, etc) and goods (durable and nondurable) used for Travel & Tourism activities.

Business Travel by government and industry, which mirrors Personal Travel & Tourism's spending on goods and services (transportation, accommodation, meals, entertainment, etc), but represents intermediate inputs used in the course of business or government work.

EXPORTS

Visitor exports play an important development role for the resident travel & tourism economy. Jamaica travel & tourism is expected to generate 47.9 per cent of total exports (JMD19.1 bn or us\$1,895.9 mn) in 2004, growing

(nominal terms) to jmd355.9 bn or us\$4,288.3 mn (51.6 per cent of total) in 2014.

At the same time, greater co-operation between all leading policy-makers – and the private sector – as well as better management of tourism growth, could help Jamaica do even better than the current forecasts suggest. This could help maximize the benefits and ensure they are evenly spread across Jamaica.

While the baseline forecasts for Jamaica travel & tourism over the next ten years are generally positive, they nonetheless highlight a few weaknesses that could hinder travel & tourism's growth. WTTC also maintains they may prevent the Jamaican economy from attaining its true travel & tourism potential in the longer term.

In order to enhance the ability for Jamaica to seriously capitalize on tourism the following areas need to be fine-tuned and remain so:

RAISING AWARENESS

Travel & Tourism is without question the foremost export sector in Jamaica and possesses the inherent ability to diversify the Jamaican economy, stimulate entrepreneurship, catalyse investment, create large numbers of sustainable jobs and help social development in local communities. However, the impact of the industry is generally not understood by public officials, the industry itself, or the communities where it takes place. Among the issues identified in the process of WTTC's research, raising awareness of Travel & Tourism's role and contribution to Jamaica is perhaps the most mission-critical issue that faces Jamaica, by extension, its impact is all consuming.

INDUSTRY MEASUREMENT

Jamaica's economic- and marketing-related Travel & Tourism research and forecasting are generally inadequate, both in terms of quality and quantity. As a result, public sector analysis and related policies tend to overlook or understate the impact of the industry, or deal only with its smaller individual components.

MARKETING AND PROMOTION

Experience has shown that demand for any tourism destination grows sharply if marketing and promotions are well funded and effective. In Jamaica our approach to Tourism in this area seem to be cyclic to put it euphemistically.

NATURAL ENVIRONMENT

The quality and success of the Jamaican tourism product is dependent, in large measure, on the maintenance of a healthy and attractive natural environment. In Jamaica, there is a need for improved planning and management to increase the technical expertise required in the areas of pollution monitoring, coastal zone management, and the preparation and evaluation of Environmental Impact Assessments (EIAs).

COMMUNITY DEVELOPMENT

There is fairly widespread concern that the benefits from tourism in Jamaica might not be reaching those who need them most and that, despite the impressive growth statistics, tourism is not doing as much as it could to relieve existing problems of unemployment, poverty and social dislocation. There has been some attempts at community tourism, which is ongoing but the support of this effort has not been supported to the extent it should. This needs to be revisited.

SAFETY, SECURITY AND HEALTH

Among the broad forces driving change in the tourism industry today, traveller safety and health are becoming two of the most influential. Crime, harassment and other forms of anti-social behaviour, along with hazardous and unhealthy facilities, are some of the major threats – real or perceived – to the development of the industry. Such problems frustrate national efforts to maintain Jamaica's image as a safe, clean and hospitable tourism destination.

What has been outlined above is Jamaica's Tourism Potential. The Tourism Minister's report for 2004 will tell us what actually occurred. The difference between the Potential and Actual is the Potential Gap. It should be noted these projections did not include the effects of Hurricane Ivan.

JAMALCO AND THE PEOPLE OF CLARENDON

"Alcoa's involvement in Jamaica has contributed to a transformation of its economy. Alcoa's already significant contribution to the long-term development of Jamaica will continue; We expect also that its outstanding record of support for community development in Clarendon will be maintained."

Prime Minister P.J. Patterson

The Jamalco plant in Clarendon has come under environmental heat for illegal emissions and the people have demonstrated to say their environment is suffering. In this context government who is a 50% partner could be sited as seriously violating the KYOTO environmental Protocol which it ratified on June 6, 1995 and entered into force on April 6 1995. A noted environmentalist has been on a prominent talk show saying the

present expansion and emission levels would be illegal in the United States. The role of NEPA has once again come under scrutiny similarly as to when The Spanish Hotel chain RIU was dumping into the sea allegedly, which was said to be affecting the biodiversity of the the said area.

JAMALCO's sustainability report 2003 "From the hills of Jamaica to the world" documents the facts that JAMALCO is an excellent corporate citizen. However being an excellent corporate citizen does not exonerate you from environmental responsibility. What are the facts, for in Jamaica we tend to give one side and not the other. Further if you accept the company's FDI, foreign direct investment, then you also accept the principles on which they operate and if you do not accept their principles you should return or refuse the the FDI. Can Jamaica afford to do so? The answer is no and as such the Government of Jamaica has made compromises and trade offs in the context of medium to long term Economic Development. Whether we agree with the policy approach and projected outcomes is another dissertation to be explored at another time.

In April 2002, Alcoa World Alumina & Chemicals (AWAC), in which Alcoa Inc. holds a 60-percent stake and WMC Ltd. 40 percent, reached an agreement with the Jamaican government to invest \$115 million to expand the Jamaica Aluminum Co. (Jamalco) alumina refinery in Clarendon, Jamaica.

The expansion will increase the capacity of the refinery by 25 percent to 1.25 million tonnes per year. The Clarendon refinery is a 50-50 joint venture between AWAC and the Jamaican government.

Jamaica also announced the removal of a 28-year-old levy on bauxite from Jamalco in 2003, when the expansion was slated for completion.

The removal of the levy and the expansion, along with a restructuring of the labor force at Jamalco, will lower costs at the refinery by 30 percent, an Alcoa spokesman said. "The new technology will also lower our costs and it will be one of our better-cost refineries;" he said.

Alain Belda, Alcoa's chairman and chief executive officer, said the relationship between the Jamaican government and Alcoa had been strong for the past 43 years and both were committed to making Jamalco a "world-class and globally competitive facility."

"The reduced costs to be achieved from the introduction of new technologies, lower raw materials costs and improved efficiencies will bring Jamalco in line with our other low-cost facilities in the refinery system;" Belda said.

Alcoa said it had no other plans to build a new facility in Jamaica at this time and was just focusing on the Jamalco expansion, its only operation in Jamaica.

More investment creating newer and larger facilities should allow Jamaica to compete better with plants in Australia, officials said.

A local newspaper, the Jamaica Observer, reported that Jamaica ranked in the lower half in efficiency ratings of the world bauxite and alumina industry but had made substantial gains since the second half of the 1990s under an aggressive plan to reorganize the industry.

Jamaican Prime Minister P.J. Patterson said that Alcoa's involvement in Jamaica had contributed to a transformation of its economy. "Alcoa's already significant contribution to the long-term development of Jamaica will continue;" he said. "We expect also that its outstanding record of support for community development in Clarendon will be maintained."

In April 2002, Alcoa Chairman and CEO Alain Belda and the Prime Minister of Jamaica Hon. P.J. Patterson signed an agreement for a 25% upgrade of

the Jamalco refinery. This expansion took the facility to 1.25 million metric-tonnes-per-year and is expected to increase production and generate efficiencies that would also simultaneously reduce production costs. The construction phase for the project was completed in December 2003 ahead of schedule and within budget.

In 2004, a further expansion was proposed to more than double refinery capacity to 2.65 million tonnes.

What is Jamalco policy on Air pollution?

Because air pollutants can be highly visible and their harmful effects easily discernible, laws to protect air quality were first enacted early in the 18th century. Air pollution was then considered to be a local problem confined to great industrial cities. By the mid-1900s, when "city pollution" was judged to also affect surrounding areas, the condition became regional in nature. In the early 1970s, the issue acquired more global proportions as the complex facets of acid deposition began to be discussed at the national and international levels. Now, evidence is building that longer term, more subtle effects of air pollution may supplant immediate concerns, and pressures for additional regulatory action are increasing.

In addition Alcoa's position is as follows:

Alcoa supports efforts to utilize voluntary programs and market mechanisms to improve environmental quality. Self-regulation has the potential to effectively address environmental issues. This concept is further reinforced by the increased publications of emission information, the requirements of environmentally aware shareholders, and demands of customers for products from environmentally responsible industries and processes. As part of a broad based Strategic Environmental framework,

Alcoa has established the following targets for air emission reductions (from the year 2000 emission levels) throughout the worldwide system of plants:

60% reduction in SO₂ by 2008

50% reduction in VOCs by 2007

40% reduction in NO_x by 2008

80% reduction in airborne mercury by 2008

255 reduction in GHG emissions by 2010 (from a 1990 base)

Alcoa will continue to encourage the use of cost-effective programs and work to ensure that regulatory programs designed to supplement voluntary goals such as the ones selected by Alcoa are practical and based on good science.

Now that we know Alcoa's position and policy if we want Green and environmentally friendly FDI 7/24 the Government and its environmental agency NEPA must do the necessary due diligence prior to accepting FDI.

Failure to do so the country will be targeted by other companies worldwide who are not necessarily good corporate citizens like Jamalco and the people of Jamaica will suffer.

WHY SOME COUNTRIES DO BETTER AT JOB CREATION

Growth and no job creation is a problem in Jamaica. The employed labour force increased by 300 persons to total 954,600 in 2003(ESSJ 2003 Pg21.2). Females continued to benefit from increased employment opportunities, as the female employed labour force increased by 700 persons (ESSJ 2003 Pg21.2) to 402,300. On the other hand males had 400

fewer jobs, resulting in the male employed labour force declining to 552,300.

Many studies have attempted to explain why some countries have higher unemployment rates than others, but less attention has been devoted to countries' relative performance in job creation, or net employment growth.

Shifting the focus to job creation has four advantages:

Employment is much easier to measure than unemployment. Measuring unemployment involves subtle distinctions between individuals who are in the labor force and those who are not: those counted as unemployed must say they are actively looking for a job; yet in high-unemployment countries in particular, so-called discouraged workers stop looking for work and remain uncounted. Conversely, many who claim to be looking for work may be half-hearted about it, the more so as their prospects dwindle.

A second reason for trying to understand job creation better is that for any given level of unemployment, faster job creation increases a country's output, and, among other things, raises the ratio of workers to pensioners, thereby lowering the cost of its social safety net.

Third, the insights gained from studying unemployment do not necessarily hold up when the focus shifts to job creation. For example, laws, programs, or labor agreements making it relatively difficult or expensive to lay off workers seem to have no effect one way or the other on the unemployment rate. However, strong systems of job protection appear to have a big effect in holding down job creation.

Finally, analyzing employment growth instead of experience with unemployment offers richer results. Data on unemployment, for example, tell us nothing about the kinds of jobs available in the workplace, or the terms under which workers hold them, such as whether they are permanent or temporary, or full-time as opposed to part-time. A look at these factors lets us assess, among other things, whether faster job creation in the United States than in Continental Europe comes from historical conditions, such as a much lower proportion of farm jobs or traditional manufacturing jobs, which have been stagnant or declining in all advanced countries. This approach can also examine the effects of women entering the workforce in larger numbers in recent years, and can shed light on important policy questions, such as whether promoting part-time work leads to higher overall job creation or merely cannibalizes full-time jobs.

A legitimate argument against this approach is that over very long periods of time, employment growth should simply equal the growth of the working-age population. However, in the medium term--20 years or so--government policies and institutional differences can have a big impact on the share of the working-age population that decides to participate in the labor market. Furthermore, the pace of job creation affects the growth of the working-age population itself, since countries adding jobs fastest will tend to attract more immigrants.

JAMAICAN LOCAL GOVERNMENT CHALLENGES

A substantial public choice literature exists on the generic phenomenon of government failure in advanced western representative democracies. However, much less attention has been focussed on this question in the specific context of local governance, with the important exceptions of Bailey (1999) and Boyne (1998). We advance the argument that not only is government failure an essential dimension of policy making at all levels of government, but that strong reasons exist for believing that the problem of government failure may be much more acute in local government than at higher tiers of governance.

VOTER APATHY

Despite the undeniable fact that the right to vote plays a decisive role in democracy, together with related constitutional rights, including free speech and freedom of association, the act of voting in democratic elections is fraught with ambiguities. For instance, the substantial costs of gathering and digesting information on:

- Competing candidates,
- Alternative policies,
- The costs and benefits of policy platforms, and the like,

together with the fact the vote of an individual elector cannot realistically influence electoral outcomes, means that most voters choose to remain 'rationally ignorant' on many of the issues involved. Similarly, voters typically play dual roles in the political process, acting both as potential beneficiaries of public policies and as prospective financiers of these policies in their capacities as taxpayers.

Despite the centrality of voting in the democratic process, it is by no means the only element in collective decision-making. Numerous other mechanisms exist.

Hirschman's (1970) 'voice' concept, ranges from formal voting procedures to opinion polls, protest meetings, petitions, 'talkback' radio shows and the like. These alternatives to voting serve to diminish its significance in electors' eyes and contribute towards low political participation rates, ill-informed voters, and the various other problems associated with elections under representative democracy.

Although the difficulties arising from voter apathy undoubtedly afflict both the electoral process and its subsequent 'responsiveness' to the preferences of citizens at all levels of government, the problem seems to be most acute in local government. It is possible to identify several factors that may account for this observation.

- Most importantly, in many local government systems, voters do not perceive periodic municipal elections as politically significant events because the behaviour of local governments is severely constrained and manipulated by state and national governments.
- Party affiliations may in any event be much weaker at the local levels of government. Accordingly, voters do not have the informational benefits of party platforms to assist them in making informed choices.

- Media reporting of local government elections is typically much less comprehensive and unquestioning than for comparable National elections. Consequently affords voters much less opportunity to become well acquainted with the policy platforms of individual candidates standing for election. Whether this is a cause or simply an effect of voter apathy is a moot point, but it nevertheless surely accounts for a greater degree of ill-informed voting in municipal elections than their counterparts at higher levels of government.
- Because of their lower public profiles and complicated interface, governance and management roles in municipal government are often confused in the eyes of many citizens, who cannot readily distinguish between elected representatives and professional public servants. Thus, perceived responsibility for past policy successes and failures is difficult to assign between the councillors and managers. Moreover, the committee systems characteristic of numerous local governments serve to further confuse the question of responsibility (Kerr, 1998).
- The nature of local government activities itself makes any evaluation difficult. Municipalities typically deliver a vast range of services, even where their focus is on the relatively narrow 'services to property' dimension of delivery. Under these circumstances, not only is monitoring of service delivery an onerous task, but accountability is extremely difficult to establish. It is thus little wonder that citizens remain apathetic about the operations

of local government.

The relatively high degree of voter apathy in local government, in comparison with its national and provincial counterparts, provides greater scope for government failure at this level of governance. In general, it can be argued that apathetic voters might not only elect inadequate representatives, but also fail to scrutinise their performance with a sufficient degree of rigour.

PERFORMANCE OF PARISH COUNCILLORS

For example, where voters are comparatively ill informed about the election platforms of councillors they are in a poor position to judge whether subsequently elected candidates have indeed met expectations or carried out their mandates. Similarly, given accountability and monitoring difficulties, citizens may experience difficulties in ascertaining how well municipalities are performing and who is responsible for any noteworthy problems that may arise. This seems to provide local government legislators with greater scope for opportunistic behaviour than their colleagues at higher levels of government and accordingly make local government more prone to what both Dollery and Wallis (1997) and Weisbrod (1978) classify as legislative failure. This may explain why in many real-world jurisdictions, national governments sometimes retain statutory powers to override the decisions of local governments or even suspend local governments and arrange new elections.

POVERTY AND INEQUALITY IN JAMAICA

“Even more troubling is the persistence of income inequality, which is the worst of any developing region in the world. In the 1990s, there has been a modest narrowing in the gap between rich and poor. However, poverty has remained far above what would be expected given the region’s per capita income.”

Enrique V. Iglesias, President,
Inter-American Development Bank
April 1998

In the context of the youth uprisings in Spanish Town and the fact that a greater majority of crime in Jamaica is in the 15-24 age group; over the last 2-3 weeks there have been numerous interviews with young persons, particularly in the 15-24 age group on radio and television and many have been calling in on the talk show programmes. These young people speak to unemployment, hopelessness and more seriously a lack of knowledge of what opportunities are out there for them. The United Nations Global Youth Report 2003 (Chapter 2, Pg 8) issued on the April 27,2004 singles out Jamaica’s youth unemployment as the second highest in the world behind Namibia in S.W Africa. There are government programmes out there to alleviate these problems, but they are not being actively accessed. This speaks to a serious communication problem in terms of marketing by those offering these programmes to uplift people.

Another issue not spoken to is a serious Income inequality not only in Jamaica as experienced now but also in the entire Latin American and Caribbean region.

Latin America and the Caribbean face a paradox. For too many people in the region, poverty amidst plenty remains a daily reality. While much of the region has registered important economic and social gains, poverty has become more persistent and more concentrated within pockets of society. Today, at least 150 million people in Latin America and the Caribbean are considered poor, and both the incidence and absolute level of poverty remain higher than they were in the 1980s. Therein lies the challenge. In Jamaica, the poverty line income is \$US2.15 per day (\$JA47, 000 per annum see ESSJ 2003 page 25.10) \$US1.15 above world average, but this in Jamaica is still not sufficient to launch the necessary potential to uplift people in Jamaica, especially young persons.

In spite of modest improvements in the 1990s, income inequality remains the worst of any developing region in the world. The lowest fifth of the population in Latin America and the Caribbean received 4.5 percent of national income, while the highest fifth received 55 percent. Severe income inequality is underpinned by extreme inequality in the distribution of assets, notably land and human capital. As a result of this wide disparity between rich and poor, poverty has been far above what would be expected given the region's per capita income.

A cornerstone for reducing poverty over time is sustained economic growth; yet growth alone is not enough. In addition, investments in people are needed to raise their level of education, training, and health. Efforts are required to help the poor earn their way out of poverty and improve

their quality of life. Steps must be taken to increase the participation of the poor, not only in specific projects, but also in the public policy-making process. Taken together, these efforts form the foundation for a successful poverty reducing strategy.

Over the past decades, much progress has been made in reducing poverty in Jamaica and in the Latin American and Caribbean region; yet much more remains to be done.

Two things are clear. First, reducing poverty requires multiple efforts across a range of sectors and activities.

As such, it involves a variety of participants, institutions, and tools, none of which in isolation can work as effectively as they do together. Secondly, the state of knowledge about poverty and the impact of the poverty reducing strategies are incomplete (the discovery of 81 zinc fence communities in Spanish Town and the effects of such conditions drives this point home succinctly). To achieve lasting solutions, a greater effort is needed to document the extent and nature of poverty. At the same time, the impact of poverty policies is not fully understood. Thus, in some cases, the success of some programs still must be proven.

Nonetheless, experience and analysis indicate that successful programs require adequate information, targeting to those most affected, effective community participation, and appropriate decentralization.

SECONDARY OR TERTIARY EDUCATION—WHICH SHOULD PUBLIC POLICY PROMOTE?

There has been much uninformed talk leaning to the socio-political rather than national development thinking as to whether to for example to charge students 100% of fees at the tertiary level and transfer subsidies to other areas of the education system. The following arguments based on well-defined research serves to enlighten the debate on this very important topic.

Rodney Ramcharan an Economist in the Research Department at the International Monetary Fund, in his recent research on Higher or Basic Education? The Composition of Human Capital and Economic Development states among his findings that no country has achieved sustained economic development without investment in education. But do all types of human capital affect growth identically? And which types of schooling—secondary or tertiary—should public policy promote? The research develops an analytical framework to address these questions. It shows how the composition of human capital stock determines a country's development. Hence, promoting the "wrong" type of schooling can have little effect on development. In addition, the research helps in understanding why empirical studies have failed to find a significant relationship between schooling and growth.

No country has achieved sustained economic development without substantial investment in human capital. Motivated in part by this observation, an extensive theoretical literature has evolved to analyze the

channels through which human capital can affect growth (surveys include Barro and Sala-i-Martin, 1995; and Temple, 1999). Much of this literature has emphasized the complementary relationship between human and physical capital, noting how imbalances in these two stocks, as well as human capital externalities, can affect economic growth.

However, because human capital is typically treated as a homogeneous concept, very little is understood about how different types of education—tertiary, secondary, and so forth—shape the overall development process.

Yet both the case study (World Bank, 1998) and the more formal econometric evidence suggest that important complementarities do exist between various types of human capital. And as the evidence from the Green Revolution in Asia suggests, these apparent complementarities can greatly affect development. The highly educated, such as scientists and technicians, appear to have a comparative advantage in understanding and adapting new or existing ideas into production processes. Meanwhile, some minimum level of education is required to follow the production template and successfully execute the production steps (Nelson and Phelps, 1966; Bartel and Lichtenberg, 1987; and Deolalikar and Evenson, 1994). Thus, do all types of human capital affect growth identically? Does the impact of a particular type of human capital on growth depend on the presence of other types of human capital? What are the characteristics of an optimal education policy?

To address these questions, it is necessary to develop a simple analytic framework that emphasizes the role of the composition of the human capital stock.

The framework relies on two key assumptions. First, it assumes that each skill type performs a specific but complementary function within the

production process in the skilled sector. Moreover, the ideas developed by the highly skilled are assumed to be nonrival but excludable, creating demand linkages between the education types that are external to the firm. And thus, the rate of return for either skill input depends on the educational composition of the entire workforce.

Second, we have a look at demand factors within the context of endogenous schooling costs.

In many countries, the lack of access to schools and the limited supply of teachers negatively affect the schooling investment decision (Mookherjee and Ray, 2000). The argument assumes that previous enrollments—the current stock of educated labor—engender improvements in the educational infrastructure: more potential teachers, more schools, and more suitable curricula, which in turn diminish the sunk cost associated with human capital investment and outwardly shift the supply curve for skilled labor (Foster and Rosenzweig, 1996).

Using this framework, we argue that the confluence of demand and supply forces creates a pattern of circularity between educational investment across the various skill categories and demonstrates how the composition—not the level—of the human capital stock determines the long-run steady-state level of development. For instance, consider the case of an economy with a limited number of secondary-educated labour. The inability of the economy to adequately use technology within the skilled sector because of the limited supply of secondary educated labor reduces the productivity of tertiary-educated workers and dampens the overall incentives for education investment. Moreover, the low returns to education may not justify the fixed cost required to invest in schooling, resulting in little human capital accumulation. The model also illustrates that in this case, even

large investments in tertiary schooling will have little effect on long-run development, as the extra tertiary-educated skilled labor may not sufficiently raise the return to secondary education to create a self-sustaining investment cycle toward a higher steady state.

The analysis is able to isolate two important characteristics of an optimal education policy. First, education investment is ongoing over time along an optimal path, but its rate of increase diminishes. Thus, the first generation experiences the biggest increase in schooling investment. But each subsequent generation becomes better educated than its predecessor, with the difference in attainment across generations declining with time. Naturally, the cost of education increases as the enrollment level increases—the flow of investment. Also, because of diminishing marginal productivity into the unskilled sector, the shadow cost of moving labor in the skilled sector increases with attainment. Therefore, it is cost minimizing to incur the largest flow of investment initially, when the shadow cost of secondary schooling investment is at its minimum. Second, the analysis argues that because the social marginal product of labor in the skilled sector depends on the level of the complementary input, the expansion in schooling should occur across both types of schooling simultaneously.

The decentralized model also helps explain the failure of many empirical studies to observe the expected strong correlation between economic growth and human capital accumulation. Much of this research uses the average years of schooling within the population as the sole measure of educational attainment. This methodology implicitly treats each year of schooling as identical, assumes that workers of each education category are perfect substitutes for workers of other education categories, and assumes that the marginal productivity of an additional year of schooling is

the same given every level of schooling attainment (Mulligan and Sala-i-Martin, 1995).

But as the model indicates, the average years of schooling can mask fundamental differences in the composition of the human capital stock; For example, countries with identical average years of schooling can converge to very different development steady states. The model used to develop these arguments is related to the literature on costly investment across multiple sectors (Matsuyama, 1991; Krugman, 1991; and Carrington, Detragiache, and Vishwanath, 1996), as well as to literature that explores the relationship between human capital and development: Lucas (1988), Azariadis and Drazen (1990), and Romer (1990).

In conclusion:

- 1) We have argued that the composition of the educational stock plays an important role in shaping the incentives for investment in education. And unless carefully chosen, education policy can prove wasteful, leaving the potential long run development steady state unchanged.
- 2) To avoid this outcome, we have argued that the initial investments in both types of schooling should be the heaviest, and that investments should occur in both education types.
- 3) The model is helpful in interpreting the empirical literature. The many empirical studies that have failed to detect a positive correlation between the growth in average years of schooling and economic growth is unsurprising. The average years of schooling can mask potentially important differences in the composition. Examples in the text highlight this empirical difficulty.

- 4) However, the argument is quite sensitive to both the posited relationship between the two types of schooling and to the modeling of schooling costs. In the case of the former, the complementarity between high- and low-skilled workers may be quite weak as openness to trade and the flow of ideas from abroad may be more critical factors in the determination of educational investment and technical change.
- 5) Hence, it may well be that developing economies need only invest in secondary schooling, importing high-skilled education embodied in the foreign goods.
- 6) Separately, the analysis has mechanically modeled schooling costs. But the nature of the cost itself may have implications for the argument. For example, the literature (Benabou, 1993; Bond, Wang, and Yip, 1996; and Hanushek, Leung, and Yilmaz, 2001, 2002) explores different mechanisms through which schooling costs influenced the incentives for schooling investment.
- 7) The related issue of credit constraints and its impact on education investment has also been subsumed into the paper's general treatment of schooling costs.
- 8) There is still an active empirical debate over the role of schooling in growth, with Bils and Klenow (2000) suggesting the converse: growth leading to schooling.

Meanwhile, by adjusting for quality differences across country, Hanushek and Kimko (2000) find an improvement in the explanatory power of education on growth. Also, education, fertility, and growth are intimately linked. Analyzing these relationships would offer a better understanding of how the composition of human capital affects development. It is hoped

that future work will address some of these issues.

SOCIAL INVESTMENT FUNDS, TOTAL FACTOR PRODUCTIVITY AND THE KNOWLEDGE BASE.

SOCIAL INVESTMENT FUNDS

The literature that focuses more specifically on Social Funds is both critical and favorable. A quantitative impact evaluation (The Social Funds 2000 study) was conducted by the World Bank's Social Protection Unit using micro-data from several different countries (Van Domelen, 2001). Some highlights of the findings are as follows: An analysis of data based upon randomized trials in Bolivia found that SIFs had a positive impact on educational infrastructure but did not improve educational outcomes.

However, health outcomes were improved with substantial declines in child mortality. Water projects also tended to improve access and quantity of water, but did not have an impact on water quality (Newman et. al. 2001). Similarly an impact evaluation conducted in Zambia (Chase and Sherburne-Benz, 2001) found a positive impact on education and health. An extensive impact evaluation study conducted in Nicaragua also found a pro-poor bias with significant education and water-sanitation improvements (World Bank, 2000).

Thus, the consensus view from Social Funds 2000 is that Social Funds are generally pro-poor both on the household level as well as geographically. Social Funds 2000 also reports that they are generally welfare improving. However, these quantitative studies do not have much to say on the impact of social funds on participation and collective action.

Evidence on these questions, to date, comes largely from Beneficiary Assessments, which are reports based usually upon Participatory Rural Appraisals (PRA) and Participatory Learning and Action tools (PLA) (Chambers, 1997), usually commissioned by the headquarters of a Social Fund, on targeted communities. They are not "impact evaluations" in the sense that they almost never include a control group or counter-factual to calculate the causal impact of the intervention. In a survey of Social Fund Beneficiary Assessments, Owen and Von Domelen (1998) report that they were "uniform in their finding that beneficiaries consistently felt that social fund projects reflected priority needs of the community, confirming the essentially demand-driven nature of social funds." Owen and Von Domelen also report that the Beneficiary Assessments revealed a high degree of participation in the execution of projects.

The Beneficiary Assessment for Jamaica provides a more complex picture of the relationship of the Jamaican Social Investment Fund (JSIF) to the communities it targets. Its overall findings, however, also are that JSIF has "succeeded to a large extent in its efforts to reduce poverty and increase social capital in targeted communities." Thus, the Bank's evaluations and assessments of Social Funds, on the whole, leave a favorable impression of an innovative process that not only is targeted to the poor, but is truly participatory with the capacity to build a community's capacity for collective action. This has led to sharp increases in lending to Social Fund and CDD projects, with a strong belief that CDD represents the future of development assistance.

TOTAL FACTOR PRODUCTIVITY AND THE KNOWLEDGE BASE

Total Factor Productivity (TFP) is defined from economic theory as follows:

The quantity of output divided by the amount of all inputs used in production. The amount of all inputs used in production can be calculated in a variety of ways. One common way is to take a geometric-weighted average of the quantities of each of the inputs, where the weight on each input is its share in the total cost of production.

However, for the purposes of this paper we will use a more management-orientated definition:

The measurement of how well an organization utilizes all of its resources, such as capital, labor, materials, or energy, to produce its outputs.

Knowledge accumulation means either new knowledge (an increase in its quality), greater access to existing knowledge (an increase in its quantity), or both.

The theory of endogenous growth based on increasing returns to knowledge accumulation originated with Romer (1986, 1990). One of the implications of this theory is that policies affecting knowledge accumulation can have a permanent effect on the rate of economic growth.

Knowledge is assumed to differ in two ways from traditional inputs. First, it has public good characteristics; and second, new knowledge is complementary to existing knowledge so that the marginal product of additional units of knowledge increases. For instance, a new idea that is generally available raises productivity and increases market size, and this raises the return to additional ideas. And a high-knowledge economy is

likely to be able to make productive use of an advanced piece of knowledge, while a knowledge-scarce economy might not.

The assumption that knowledge is a public good means that, once generated, it diffuses costlessly and is available to the entire economy. Though knowledge clearly possesses public goods characteristics, most knowledge is privately produced and is rarely a pure public good whose diffusion is instantaneous or free. Much new knowledge is embedded in new products or in improved qualities of existing products and does not diffuse either freely or instantaneously. This is especially true for international knowledge diffusion where additional barriers exist, including tariffs and quantitative restrictions on imports, different standards and regulations, and higher communication costs (including those related to language differences).

In the case of domestic knowledge diffusion, Griliches (1957) showed for the US that the adoption of hybrid corn was gradual, and that the cumulative adoption process followed a logistic or S-function. Griliches' work spawned a number of studies that also found S-shaped patterns in other technology diffusion processes. This implies that it might take a long time until most firms adopt the new technology. For instance, Greenwood (1997) found that it took 54 years for the rate of adoption to rise from 10% to 90% of existing firms for steam locomotives and 25 years for diesels in the US, and Manuelli and Seshadri (2003) found it took 35 years for tractors.

The studies described above imply that access to knowledge is not instantaneous.

Rather, its rate of adoption is subject to the usual cost-benefit considerations and typically leads to gradual adoption. Consequently, knowledge accumulation will occur through an increase in quantity (increased diffusion of existing knowledge), an increase in quality (new knowledge), or both.

In examining the impact of trade through openness with the rest of the world and the impact of donor aid and investment on countries like Jamaica; recent literature has examined the impact of trade on knowledge diffusion by constructing measures of access to foreign knowledge and estimating the latter's effect on productivity. The seminal paper is Coe and Helpman (1995). It estimates the impact on total factor productivity (TFP) of "foreign R&D," where foreign R&D is defined as the sum of trading partners' R&D stocks (i.e., a measure of knowledge quality), weighted by the bilateral trade shares (a measure of knowledge quantity). Using aggregate data, Coe and Helpman (1995) and Lumenga-Neso et al. (2001) find for developed countries and Coe et al. (1997) for developing countries that foreign R&D has a significantly positive impact on TFP. Thus, TFP rises with the degree of a country's openness and with the trading partners' R&D stocks. Similar findings are obtained at the industry level by Keller (2002b) for developed countries and by Schiff et al. (2002) for developing countries.

PRODUCTIVITY IN JAMAICA

The concern over the low level and rate of growth of productivity (labour and total) has

resulted in the drive to examine the factors affecting productivity in the Jamaican economy. Kirton (1992) reports on a case study of labour productivity enhancement in Jamaica which indicated that the following factors were important: plant reorganization and lay-out, greater involvement of supervisors in producing ideas for improvement, proper production scheduling (planned down time for maintenance, inventory stock accumulation), improved maintenance of equipment, increased investment in spare parts, training in quality management and an incentive programme to reduce absenteeism.

In an analysis of production problems in Jamaica, Shirley (1991) highlighted the following issues:

- a. Production systems in the manufacturing and, to some extent, the services sector are "ill-equipped to provide either the level of productivity, quality or flexibility to compete with international competitors using more modern systems" (p. 12). In effect, there was a lack of continuous upgrading of production systems and technology so that the state-of-the-art technology used in Jamaica lagged significantly behind international standards. Technological backwardness is perceived as a main source of the low level of productivity growth in Jamaica.
- b. The lack of human resources with the level of technical and problem-solving skills to underdevelopment complemented technological backwardness in explaining the low productivity growth.

- c. The sharp division between the line and staff workers in manufacturing and services enterprises which results in a lack of trust and adversarial industrial relations contribute to low productivity in Jamaica. The lack of 'trust' results in worker de-motivation and low levels of productivity (see Stone 1982; Carter, 1997 and Cowell, 1999).
- d. The government's protectionist policies which shield local enterprises from external competition and maintains a sense of complacency on the part of the management of enterprises. Enterprises are unable to engage in international benchmarking.

Ventura (1992) also highlights the lack of modern technology and the investment in human resources development as the main factors affecting productivity in Jamaica. He further notes that the educational and training system has not adequately addressed the science and technology needs of the country. There has been a heavy reliance on imported technology, which the local workforce is poorly equipped to handle.

Stone (1992) points to a number of factors which can obstruct the implementation of productivity policies in Jamaica. These factors include:

- a. a poor response by the private sector to productivity incentives because of their lack of confidence in an uncertain economic environment;
- b. Inappropriate investment of profits by the private sector which has been myopic and interested in quick high returns. A classic example is the boom in the financial sector in the 1980/90s relative to the poor performance in the real sector of the economy;
- c. the deep distrust between workers and management which demotivates workers;

- d. incentives offered are usually not large enough to have an impact on productivity;
- e. work norms and management styles are deeply embedded in work cultures and are constantly being fed by the non-work environment thus making it difficult to effect change in the workplace. Social relationships based on class, colour, ethnicity, residential location and education spill over from the wider society into the workplace;
- f. the competitive environment is blocked by unequal economic power between new and old capitalists and by the existence of powerful business groups who control the market place. Barriers to entry are created thus excluding potentially productive operators.

These powerful enterprises can engage in lobbying and rent-seeking behaviour in order to maintain their monopolistic control.

CONCLUSION

In the past decade or so, much research has been conducted on productivity-led economic growth and its determinants. A major reason is the widespread belief that economic growth due to rapid factor accumulation is subject to diminishing returns, and hence is not sustainable. Recently, there has been a growing interest in the contribution of knowledge to total factor productivity growth, and consequently to sustainable long term economic development.

Economic research on knowledge comes in various forms. For example, there has been much research on the importance of human capital, in terms of education and/or skills, to economic growth. Similarly, research has been conducted on innovation and research and development (R&D) that lead to new technology, which ultimately leads to

increases in output per capita. In addition, there has been some focus on the effects of information and communication technologies (ICTs) on the flow of knowledge and information and its ultimate effect on economic growth. In view of the above, one seeks to empirically determine the effects of various aspects of knowledge on economic growth, and by doing so, it dwells on the concept of the knowledge economy, an economy in which knowledge acts as the main engine of growth.

We postulate that there exist four preconditions that lead to knowledge becoming an effective engine of growth. These four preconditions, or four pillars of the knowledge economy, are:

- An economic and institutional regime to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship.
- An educated and skilled population to create, share, and use knowledge well.
- A dynamic information infrastructure to facilitate the effective communication, dissemination, and processing of information.
- An efficient innovation system of firms, research centers, universities, consultants, and other organizations to tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new technology.

In essence, we postulate that the amount of knowledge and how it is used are key determinants of total factor productivity. Strengthening the above four pillars of the knowledge economy will lead to an increase in the quantity and quality of the pool of knowledge available for economic production. This will consequently increase productivity and thus economic growth.

SUGAR MUST SWEET EVERYONE, NOT ONLY A FEW

The Reform of the EU sugar regime will affect not only the EU member states and candidates, but also countries that are associated with the EU through the preferential, regional, and multilateral trade agreements. The liberalization of the EU sugar regime would benefit only a few countries, especially Brazil, Thailand, Australia, or South Africa. The losers would be the ACP countries (which includes Jamaica) and the world's poorest countries because these countries would not be able to compete due to high production costs or scarcity of resources available for establishing the necessary infrastructure. As a result, the rural poor will incur the bulk of the burden of structural change to the EU sugar policy. More importantly, this will be working against the United Nations Millennium Development Goal of reducing poverty and hunger, by 2015 in Countries like Jamaica.

The European Union (EU) is a major participant in the world sugar market. In 1999, the EU was placed second in the ranking of all the major producers, exporters and importers in the world. The EU, Brazil, Australia, Thailand and Cuba accounted for about 70% of world exports in 1999. The EU and Brazil are the dominators in the world sugar trade, being the top producers and exporters in the world. Although the EU is also a major importer of sugar, sugar imports in Brazil are negligible. The EU is unique in being both a major exporter of white sugar and an importer of raw sugar in the world market.

The dominant role of the EU in the world sugar market is the result of the high level of support the EU is providing to its sugar sector, compared with the member countries of the World Trade Organisation (WTO). The EU uses export subsidies to bridge the gap between the high internal EU market price and the significantly lower world market price. In the previous years, the world market for sugar has been characterized by considerable overproduction and a rising level of stocks. The ratio of stocks as a percentage of world sugar consumption escalated from 35.92% in 1992/1993 to 48.81% in 2001/2002. World stocks are now at a high level, which has had the effect of depressing prices. World sugar production in 2001/2002 was 136 million tonnes, with consumption at 134 million tonnes. In 2000/2001, world sugar production was 128 million tonnes with consumption at 130 million tonnes. Approximately 28% of world sugar production is traded in the world market whilst the balance is consumed in the country of origin. Global sugar consumption continues to increase at an average of 2% per annum.

The EU Common Market Organisation (CMO) of sugar has established minimum support prices for sugar guaranteed by an intervention purchase system. A production quota system was established to limit the total quantity eligible for price support. The EU sugar producers (growers and processors jointly) are responsible for paying the full costs to the EU budget of surplus quota-sugar disposal through the producer levies.

There are two types of quotas: A and B. The major difference between A and B quota sugar is the level of imposed producer levies.

Only quota-sugar can be sold in the EU and is eligible for price support through the intervention mechanism and export refunds.

Sugar produced in excess of the A and B quotas is called C-sugar and cannot be marketed in the EU. C-sugar has to be sold on the world market without the support of export refunds/export subsidies. Thus, the quota system limits the supply of sugar in the EU internal market (CAP Monitor).

The EU internal market is insulated from the world sugar market through a system of import duties and export refunds. The CMO of sugar supports producer prices at levels above world market prices, stimulating production in the EU and resulting in exportable surpluses of sugar. Consequently, the EU has been distorting trade flows by disposing the sugar surpluses to the world market with export subsidies.

Although the CMO of sugar exhibits a high degree of protectionism, the EU has granted a whole array of bilateral trade concessions to certain developing countries since its creation. Over the years, the EU has established a complex system of trade arrangements, which is reflected in the complex network of discriminatory tariffs and through generalised, country-specific or region-specific trade preferences. Thus, the EU sugar trade policy has deviated widely from the non-discrimination principle of the WTO, and it applies different policies to different regions and trading blocs. These country-specific trade concessions reflect in part the multiplicity of the EU's foreign policy interests, ranging from old colonial responsibilities to military-strategic considerations (Harris and Tangermann 1993).

Currently, the EU is engaged in negotiating or implementing trade agreements that are unilateral, bilateral, regional and multilateral in nature.

In addition, the EU enlargement process will cause trade effects that will have important interactions with other trade agreements as well.

Ellen Huan-Niemi (2003) in her working paper: THE IMPACT OF PREFERENTIAL, REGIONAL AND MULTILATERAL TRADE AGREEMENTS: A CASE STUDY OF THE EU SUGAR REGIME, Research out of Helsinki, Finland almost a year ago, in 2003 not highlighted in Jamaica could be very instructive, she draws the following conclusions:

1) The reform of the EU sugar regime will affect not only the EU member states and candidates, but also countries that are associated with the EU through the preferential, regional and multilateral trade agreements. For several decades, the EU has supported and protected the EU sugar sector. Sugar from developing countries will not be able to enter the EU sugar market without preferential trade agreements.

2) In the EU sugar regime, the unique features of the trade concessions are that sugar under preferential import quotas can enter the EU market duty-free and the price paid for sugar equals to the high EU price for sugar. One crucial issue for the ACPs is whether the EU will continue the ACP/EU Sugar Protocol after the end of the Cotonou Agreement in 2008. The Sugar Protocol explicitly states that the EU undertakes, for an 'indefinite period', to purchase and import, at guaranteed prices, specific quantities of cane sugar that originate from the ACPs. But the EU Commission is currently examining options for reforming the sugar regime, most of which involve substantial cuts in the EU's guaranteed price for sugar.

- 3) These price cuts would inevitably be reflected in the prices paid to the ACP producers.
- 4) The EU Commission has indicated to the sugar producers in ACPs that the inflated prices they receive under the Sugar Protocol are unsustainable in the long term.
- 5) Similarly, the EU's initiative to eliminate duties and quotas for sugar imports from the LDCs (Lesser Developed Countries) is pressuring the EU to reform the sugar sector in order to avoid a major influx of sugar coming from the LDCs.
- 6) The main questions are what the supply capacity of the LDCs will be and how the 'rules of origin' will affect the amount of sugar entering the EU market. Moreover, the everything but Arms trade concession allows accumulation among the LDCs and ASEAN (Association Of South East Asian Nations) SAARC (South Asian Association Of Regional Cooperation) and the EU.
- 7) The lucrative EU sugar market will attract both genuine and fraudulent trade in sugar because of the high EU price for sugar compared with the world market price.
- 8) Both the 'safeguard cases' involving the OCTs (Overseas Countries & Territories) and western Balkan countries have shown that the EU Commission is willing to make use of the safeguard measures stipulated in the preferential market access agreements.
- 9) It remains to be seen whether the EU Commission is going to impose the safeguard measures on the imports of duty-free sugar from the LDCs or if there will be a flood of sugar from LDCs after 2009.
- 10) The pressure from the WTO multilateral agreement to reduce import tariffs will instigate reform in the high support price for EU sugar. The EU will not be able to keep its border protection for sugar without lowering the support price for sugar.

In addition, the use of export subsidies may be substantially reduced or eliminated, while quota sugar exports are heavily dependent on export subsidies. Thus, exports of quota-sugar to the world market will not be possible without export subsidies, owing to the high EU price for sugar. Even the exports of non-quota sugar (C-sugar) are being challenged in the WTO because of the issue of cross-subsidisation from the high EU price for quota sugar (which the present ruling speaks to).

In summarizing, the sugar trading activities of the Caribbean Sugar Industry and evaluating the potential impact of changes in preferential trading arrangements with the European Union (EU) on the six countries that make up the Sugar Association of the Caribbean, namely: Jamaica, Barbados, Belize, Guyana, St. Kitts-Nevis, and Trinidad & Tobago, projected policy coming out of the European Union requires pro active action on the part of these producers.

The trading policies that govern sugar trade between these countries and developed countries such as the EU, the United States of America (US) need to be re written for the needs and wants of developing countries and not the Developed countries.

The analysis shows that modest decreases in prices to Caribbean sugar producers would not result in huge changes in the structure of the Caribbean sugar industry since responses of production, consumption, imports and exports are inelastic to prices changes in the short-run. This could be due of asset fixity within the industry. This industry requires huge capital investments; thus, after these investments are made producers are

forced to operate at full capacity to minimize fix costs. Secondly, the industry within this region is a mass employer of labor and a huge contributor to their country's Gross Domestic Product (GDP); therefore, any major changes with this industry could result in massive social instability.

One proactive approach that CARICOM Sugar Producers could look at is where they can rationalise their industries, where they can add value, whether there are opportunities in refining, or producing bioethanol or looking at other value added applications in the context of rum, molasses production.

Whatever they plan to do must be done now in order maintain economic stability.

THE HOSPITAL FOUNDATION TRUST: A LOCAL COMMUNITY INITIATIVE

.....In broad terms, the Region's health situation can be viewed as a reflection of the dual impact of the demographic changes and shifts in epidemiological profiles. It also mirrors the effectiveness of health policies and the performance of the health systems. Some health problems still remain unresolved and new ones have emerged.

Moreover, health problems are unequally distributed across the population and have differential effects on various groups. The health gains that have accumulated at the beginning of the 21st century are, in great measure, a

tribute to the capacity of the countries to pursue the goal of "Health for All by the Year 2000," recognizing that it remains valid in the Region of the Americas even today.....

George A. O. Alleyne

In view of the Local Government Reform Programme (LGRP) which has as its major objective the involvement of local communities; and in addition, the limited funds we have as a nation to spend on health services; the implementation of **Hospital Foundation Trusts** across Jamaica, starting in the parish capitals could be a policy initiative that could bring serious benefits to local communities.

Local communities and staff would be given a bigger say in managing hospital services in their area.

Trusts will establish stronger connections between local hospitals and their local communities. Local communities will have social ownership of their Foundation Trust. Those living in communities served by a hospital of a Foundation Trust will be invited to become a member. The membership community of each Foundation Trust will be made up of local people, patients and carers and staff.

Members will be able to stand and vote in elections for Governors of the Trust. Governors will be responsible for representing the interests of the members and partner organisations in the local health economy in the governance of the Foundation Trust. This sort of public ownership and

accountability will ensure hospital services more accurately reflect the needs and expectations of local people.

Foundation Trusts will not work in isolation. They will be bound in law to work closely with partner organisations in their local area. Health care planning will continue to involve the whole National Health Service community, but with more freedom to set up partnerships between all healthcare providers.

Foundation Trusts will operate within a clear accountability framework. They will not be left to sink or swim, allowed to 'cherry pick' services or set loose to pursue organisational goals at the expense of the needs of their local health community.

The achievement of the Millennium Development Goals is of prime importance, their achievement means improving the health and quality of life of the poor, which is a fundamental goal of economic development. While there have been achievements, differences and disparities exist between countries, and several are lagging behind, this region is one of the most affected by the HIV/AIDS pandemic; and there has been a resurgence of tuberculosis and a rise in obesity and non-communicable diseases such as diabetes and hypertension. For Jamaica to become a developed country we need to address these problems. The establishment of Hospital Foundation Trusts in Jamaica must be a step in the right direction policy wise.

THE NEED FOR POLICE REFORM: A NEW STRUCTURE FOR POLICING IN JAMAICA.

In a recent interview on NATIONWIDE/POWER106 newscast of May 4, 2004, Minister Peter Phillips, Minister Of National Security said he was seriously concerned about the serious recent increase in the crime rate and he would have to have another look at the National Crime Plan.

In view of the fact that the government has limited funds to right the problem of crime in Jamaica, perhaps, the problem is not the National Crime Plan, but, what is needed is: **A NEW STRUCTURE FOR POLICING IN JAMAICA.**

THE ROLE OF THE MINISTER

The Minister with responsibility for National Security of the Nation must be answerable to the Parliament and the public for the provision of an efficient and effective police service.

MINISTER'S PERFORMANCE

- 1) The Minister will set strategic direction for the service by objectives, or Ministerial Priorities. These Priorities represent the major public concerns, which the service should be tackling nation-wide. They are designed to concentrate efforts to improve performance in these key areas and are selected after consultation with representatives of police authorities and chief officers.

- 2) Monitors performance by means of the Ministerial Priorities and associated performance indicators, policing plans, annual reports.

FUNDING

The Minister is answerable to Parliament for expenditure on the police service.

The Minister will determine the total grant and its allocation to police authorities, using a funding formula.

The police funding formula allocates money to forces on the basis of assessment of the relative needs for policing in their areas. The formula is based on an analysis of the activities carried out by the police and socio-economic data.

Allocated funds are paid directly to police authorities.

Police authorities are responsible for setting the budgets and can raise extra tax should they wish to spend above the level assessed as necessary for their area.

In addition, local councils are free to contribute extra funds to police authorities should they wish to do so.

PARISH POLICE COMMISSIONERS (PPC)

PPC's are operationally independent. The PPC is responsible for the direction and control of the force, including civilian staff, and financial management .

PARISH POLICE COMMISSIONERS (PPC) RESPONSIBILITIES

Prepares a draft annual policing plan, in consultation with the police authority. The annual policing plan is issued by the police authority.

Must have regard to the annual policing plan in management of operational policing, but may depart from it if operationally necessary and may expect to be called upon by the police authority to explain any significant departure.

Produces a report to the police authority at the end of each financial year on the policing of the area during the year.

THE ASSOCIATION OF PARISH POLICE COMMISSIONERS (APPC)

The membership will be comprised of police chiefs and assistant chiefs.

The association will have the role in developing policing policy, carrying out research and publishing guidance for Chief Officers.

The association will be funded by a combination of grants from the Ministry of National Security, Contributions, Subscriptions and Annual Fundraisers.

PARISH POLICE AUTHORITIES (PPA)

Parish Police authorities will be freestanding corporate bodies, independent and separate from local councils.

The composition of the PPA will be as follows:

5 Councillors from the parish, 3 Magistrates and 5 Independent members.

The Minister may increase the size of the police authority if appropriate. Councillor members must always comprise a majority of one, and if an increase is agreed, the number of independent members must also be increased.

The appointment of the members will be for a period of 4 years

Councillor members are appointed by the relevant council.

Appointments must ensure, as far as practicable, that political parties are represented on the police authority so as to reflect the proportion of their members on the council or councils (including independent councillors).

Magistrate members are appointed by the local magistrates panel or Magistrates'

Courts Committee.

The role of the Parish Police Authority (PPA) is to maintain an efficient and effective police force for the area.

Specific responsibilities will include but not limited to:

Consulting the local community about their concerns, to identify local objectives

Setting targets to support local objectives and Ministerial priorities.

Publishing an annual policing plan setting out how the community will be policed in the year ahead – including how objectives are to be met and how available resources are to be used. The plan is drafted by the Parish Police Commissioner, who must be consulted about any changes to the draft, but ownership of the plan rests with the police authority.

Reporting back to the community at the end of the year on the extent to which the annual plan has been delivered.

Securing, under Best Value, a continuous improvement in the provision of police services. Producing a Best Value performance plan, incorporated in the annual policing plan, sets out a programme of Best Value reviews by which authorities must review fundamentally the performance of all services over a five-year period.

The Code of Practice on Financial Management to encourage police authorities to delegate financial management to the Parish Police Commissioner.

THE ASSOCIATION OF POLICE AUTHORITIES

The Association of Police Authorities (APA) to be set up to represent police authorities in Jamaica and to strengthen and support the role of police authorities locally.

The APA represents police authorities in consultation on police matters, and supports police authorities in their work by providing training, publications and research.

The APA will be funded by subscription from member authorities.

STANDARDS UNIT

The Standards Unit will exist to deliver the Government's commitment to raise standards and improve operational performance in the police and in crime reduction generally in order to maintain and enhance public satisfaction with policing in their area.

Its core objective will be to identify and disseminate best practice in the prevention, detection and apprehension of crime in all forces in order to reduce crime and disorder as well as the fear of crime.

The Unit will operate as follows:

Work with forces and Command Units to ensure the most effective use of intelligence, detection and successful prosecution procedures.

Identify Units or forces performing below their best, based on reports, statistical information, or particular cases of concern.

Engage directly with the Units or force to establish the nature of the problems, the extent to which best practice may be lacking, and the remedial action required.

Engage similarly with other local agencies to ensure their effective contribution, including through Crime and Disorder Reduction Partnerships, where it is apparent that this is the key to police success in tackling crime and disorder at force level and below.

Identify where in exceptional circumstances combined cross cutting measures engaging other agencies are required to focus on and achieve early change within a specific geographic area or unit boundary.

Have a capacity to provide short term funding to support the remedial action it has identified and which could not otherwise be undertaken.

Identify issues which raise policy, technical or legal questions for the Ministry of National security to address.

VENTURE CAPITAL TRUSTS FOR FUNDING JAMAICAN SMES?

There is a trend in Small –Medium Enterprises in Jamaica not to take in a partner for expansion but rather to go to a bank and mortgage the company's assets for an extended period. The alternative could be venture capital assistance. The United Kingdom has a financial vehicle called a **Venture Capital Trust Scheme**, which was started in 1995. Could this model work in Jamaica for Sustained Small Business Development (SSBD)?

The Venture Capital Trust scheme is designed to encourage individuals to invest indirectly in a range of small higher-risk trading companies whose shares and securities are not listed on a recognised stock exchange, by investing through Venture Capital Trusts (VCTs). So, if you invest in a VCT, you spread the investment risk over a number of companies.

VCTs would be companies listed on the Jamaica Stock Exchange, and are similar to investment trusts. They are run by fund managers who are usually members of larger investment groups. Investors subscribe for, or otherwise acquire, shares in a VCT, which invests in trading companies, providing them with funds to help them develop and grow. VCTs realise their investments and make new ones from time to time.

VCTs must be approved by us for the purpose of the scheme. Approval is given if they meet certain conditions. If you invest in them you may be entitled to various income tax and capital gains tax relief, and VCTs are exempt from corporation tax on any gains arising on the disposal of their investments.

Approval of a VCT means that it currently satisfies the requirements enabling investors to qualify for certain tax reliefs.

Tax reliefs are available only to individuals aged 18 years or over, and not to trustees, companies or others who invest in VCTs.

There are two **income tax reliefs**, they are exemption from income tax on dividends from ordinary shares in VCTs ('dividend relief'), and income tax relief a percentage of the amount subscribed by the individual for **new** ordinary shares which carry no preferential rights or rights of redemption throughout the period of three years from the date on which they were issued. You can get this relief for the tax year in which these 'eligible shares' were issued, provided that you hold the shares for at least three years.

There are also two **capital gains tax** (CGT) reliefs, they are exemption from CGT on gains that arise if you dispose of your ordinary shares in VCTs ('CGT exemption'), and deferral of capital gains where you get income tax relief on an investment in VCT shares ('deferral relief'). You can defer a total amount of gains up to the amount invested in the VCT shares. The VCT shares must be issued in the period beginning 12 months before and ending 12 months after the gain arises.

You can get two of the reliefs, dividend relief and CGT exemption, for newly issued shares and second-hand shares acquired, for example, through the Stock Exchange. But income tax relief and deferral relief can be claimed only if you subscribe for new shares.

You can get VCT tax reliefs if you acquire shares in VCTs up to a pre-determined maximum per tax year. You can claim the reliefs, where applicable, from the Tax Office, which deals with your tax affairs. To claim deferral relief, you must be resident or ordinarily resident in the Jamaica both when you make the disposal-giving rise to the gain and when you invest in the VCT.

In some cases you will not be entitled to income tax relief for a subscription for VCT shares. For example if a loan is made to you or an associate of yours (such as a business partner, your spouse, or a close relative) on terms which are linked to the share subscription.

To get the tax reliefs offered by the VCT scheme, you must invest in a company, which has been approved as a VCT. The main conditions a company must satisfy for approval as a VCT are that its income for its most recent accounting period must have been wholly or mainly from shares or securities throughout that period, at least 70% (by value) of its investments must have been 'qualifying holdings', that is shares or securities in companies which meet the conditions of the scheme and which were issued to the company and have been held by it ever since throughout that period, at least 30% (by value) of its qualifying holdings must have been holdings of ordinary shares with no preferential rights or rights of redemption at no time in that period must its holding in any company have represented more than 15% (by value) of its investments throughout that period, its ordinary shares must have been listed on the Jamaica Stock Exchange it must not have retained more than 15% of its income in that period from shares or securities.

To retain approval, the company must continue to satisfy all the conditions during each later accounting period.

If a company issues any of its shares or securities to a VCT, it must meet certain conditions if those shares or securities are to form part of the VCT's qualifying holdings. These conditions concern both the type of company and the size and mix of investment. There are, for example, requirements as to the companies

- Unquoted status
- Trading activities
- Gross assets
- Independence, and subsidiaries.

Unquoted status

The company must be an unquoted company for VCT purposes. This means that none of its shares, stocks, debentures or other securities can be listed on a recognised stock exchange.

Trading activities

The company must exist for the purpose of carrying on a 'qualifying trade' or be the parent company of a trading group whose business as a whole meets the scheme's rules. The funds received from the VCT must be used for the purpose of a qualifying trade carried on wholly or mainly in the Jamaica.

Most trades qualify, provided that they are conducted on a commercial basis with a view to making profits. A trade will not qualify if one or more excluded activities together make up a 'substantial part' of that trade. This will depend on the relevant facts and circumstances, but we generally consider that they do where they amount to more than 20% of the trade. The main excluded activities are dealing in land, financial instruments, or in goods other than in the course of an ordinary trade of retail or wholesale distribution financial activities, property development, or providing legal or accountancy services leasing (including letting assets on hire, except in the case of certain ship-chartering activities) receiving royalties or licence fees, except where these arise from an intangible asset such as a patent or know-how, most or all of which has been created by the company (or one of its subsidiaries) providing services to another company in certain

circumstances where the other company's trade consists to a substantial extent in excluded activities.

GROSS ASSETS

The value of the company's gross assets must not exceed \$15 million immediately before the VCT makes its investment, and \$16 million immediately afterwards.

INDEPENDENCE

The company must not be controlled by another company, or another company and a person connected with that company.

Nor must there be any arrangements for such control. For this purpose a company controls another company if it directly or indirectly possesses, or is entitled to acquire more than 50% of the company's share capital or issued share capital, or more than 50% of the voting power in the company, or enough of the company's issued share capital to entitle it to more than 50% of the company's income if it were all distributed to the company's participators, or more than 50% of the assets of the company that are available for distribution to the company's participators on its winding-up.

For this purpose all loans (except loans convertible into shares) and fixed-rate preference shares that do not carry voting rights are ignored.

SUBSIDIARIES

To meet the rules of the scheme, the only companies that the company may control are qualifying subsidiaries. A qualifying subsidiary must not be controlled by any other person. In addition not less than 75% of its issued share capital and not less than 75% of its voting power must be held by the company, or by another of the company's

subsidiaries, and the company or another of its subsidiaries must be entitled to receive not less than 75% of its profits, or, if it were wound up, 75% of its assets.

If the money raised by the company by issuing its shares or securities to a VCT is to be used by a subsidiary, then the requirements for that subsidiary must be satisfied at the 90% level rather than at 75%.

OTHER REQUIREMENTS

Other rules concerning the investment include rules relating to the maximum size of the investment in any particular company that can count towards a VCT's qualifying holdings how the money invested by a VCT is used and the period within which it must be used, and the need for a minimum proportion of the total investment made by a VCT in any particular company to consist of ordinary shares with no preferential rights or rights of redemption.

This structured approach, clear and transparent, perhaps, just perhaps could be the winning formula that has evaded SMEs in Jamaica.