

JAMAICA - EUROPEAN COMMUNITY

Country Strategy Paper

and National Indicative Programme

for the period 2001 - 2007

The Government of Jamaica and the European Commission hereby agree as follows:

- (1) The Government of Jamaica (represented by *<name and title>*), and the European Commission, (represented by *<name and title>*,) hereinafter referred to as the Parties, held discussions in *<place>* from to with a view to determining the general orientations for co-operation for the period 2001 – 2007. The European Investment Bank was represented at these discussions by *<name and title>*.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Jamaica were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Jamaica. The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the Community envisages to make available to Jamaica for the period 2001-2007, an amount of € 73 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of € 27 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which the Jamaica benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the Indicative Programme.
- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the

Commission at the request of the Government of Jamaica, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance. The mid-term review shall be undertaken within two years and the end-of-term review shall be undertaken within four years from the date of signature of the Country Strategy Paper and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of current needs and performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of Jamaica

For the Commission

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PART A

COUNTRY STRATEGY PAPER

Executive summary

This Country Support Strategy (CSS) presents the framework which will govern EC assistance to Jamaica for the period 2001-2007.

National development strategy

The government's national development strategy, which is detailed in the Medium Term Social and Economic Framework is based on the following four pillars:

- i. restoring economic growth, including rehabilitation of the financial sector, consolidating fiscal policy and strengthening the framework for private investment;
- ii. ensuring that growth is inclusive and that the poor are adequately benefiting, including enhancing the efficiency and effectiveness of social safety nets, improving educational access and outcomes, and improving health services;
- iii. improving governance, efficiency and effectiveness in the public sector, including divesting from commercial activities, improving management information systems and reforming public management and incentives;
- iv. ensuring sustainable development, including establishing an explicit link between economy and environment, stimulating sustainable agricultural and tourism development.

Challenges

An important challenge for realising growth is pursuing the planned macro economic reforms including the implementation of a tight fiscal policy, reducing the public debt problem and restoring the financial sector. This policy should result in declining interest rates and stimulating investment. However, the strict fiscal policy will put expenditure on social programmes (health, education, water, social safety net programmes) under strong pressure and require more emphasis on effective implementation of such programmes, including effective delivery methods involving community participation (local government, involvement of NGOs/CBOs).

Growth in Jamaica in the coming years will have to be largely export-led. To realise export-led growth requires improving the competitiveness of the private sector, involving cost reductions and investments in restructuring in favour of more competitive activities. As interest rates are trending down, factors limiting access to credit such as strict collateral requirements may become an important obstacle to investment growth, especially for small and medium size enterprises. Small and medium enterprises also face important internal constraints in terms of management, technology, product quality and marketing capability. An emerging challenge is the need to meet quality and environmental standards at the main export markets, as well as certification requirements. A constraint for private sector development and sustainable agriculture is furthermore the poor quality of infrastructure, especially the road transportation network. An important issue is the sustainability of growth, which is related to agriculture, tourism and mining, as well as population growth. In this context wastewater treatment, solid waste disposal and coastal protection need to be addressed.

EC response strategy

Based on the challenges, supporting the government strategy, programmes by other development co-operation partners, discussions with representatives of civil society and taking account of the

EC's comparative advantages and strengths, the EC response was drawn up and intends to focus on the following areas of support:

1. **Macro economic support**, assisting the macro economic reform programme as presented in the IMF's SMP, while at the same time targeting social sector performance in terms of education, health and social safety net improvements. The budget support programme will be subject to strict accountability requirements. The programme will also have a technical assistance component strengthening the implementation capacity of responsible government institutions.
2. **Private sector development**, involving the implementation of a business support programme to assist companies in designing and implementing restructuring programmes and to improve competitiveness. The business support services are to be accessible to companies, representative organisations and supporting institutions (training, research) in the different sectors of the economy (from agriculture to services). Competitiveness improvement should result in better access to foreign markets, as well as the domestic market. Special attention will be devoted to meeting standards, and phytosanitary and certification requirements at the US and EU markets, introduction of IT in SMEs, support to small/medium hotels and support to farmers. In addition there will be a provision for technical assistance to support the implementation of an EIB funded lending programme.
3. A **sector-based support programme for the transport sector (road sub-sector)**. This sector programme will be aimed at improving sustained road maintenance by supporting the Ministry of Transport in the implementation of a road maintenance strategy, and by improving its capability to operate an effective road maintenance programme. This programme will result in better accessibility of rural communities and promoting production in rural areas. The implementation of the programme, which will include technical assistance, will be subject to the preparation and adoption of a road maintenance strategy, which will also be supported by other donors.
4. A **non-focal programme** focusing on poverty alleviation and implemented through participatory de-centralised co-operation. Institutional Strengthening and studies in order to facilitate the implementation of the NIP might also be considered under this non-focal area.

The indicative programme of 100 M€ (over-programmed by approximately 20%)

	Total ENV. A	Total ENV. B
EDF co-operation programmes		
Private sector development	20	-
Sector based approach Transport	30	-
Total	50	-
EDF instruments		
Macro economic support	30	-
Total	30	-
Non-focal programme of decentralised co-operation and Institutional strengthening	10	
Grand total	90	30

1. EC co-operation objectives

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries in to the world economy;
- the campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and Jamaica shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement and essential fundamental elements as defined in Article 9.

In their statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be taken to ensure that Community development policies be taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender equality, environmental protection and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership.

2. The policy agenda of Jamaica

2.1 Introduction

Poverty is at the top of government's agenda. In 1996 the National Industrial Policy, the strategic plan for growth and development that leads government action, indicated that poverty alleviation is a priority goal of policy. The National Industrial Policy establishes that economic growth is the only sustainable strategy to achieve the ultimate goal of poverty eradication. Government's medium-term strategy is documented in the government's Medium Term Economic and Social Framework, which presently covers the period of 2000/01-2002/03. The government's Public Sector Investment Programme (PSIP), a three year rolling programme, supports the government's medium term strategy. The first year of the PSIP is included as the capital programme in the national budget of that year.

2.2 Strategic objectives

The formulation and development of Jamaica's economic and social policies and programmes, are guided by the vision for "an efficient, globally competitive and growing economy, creating jobs for a vibrant healthy and educated population, caring for its environment in a just, secure and equitable society". It is recognised that for this vision to be attained, medium term imperatives must focus on the re-ignition and acceleration of economic growth as a basis for employment creation and improvement in living standards. Improvements in competitiveness and productivity as well as increased production are expected to play a major part in achieving this objective. The Medium Term Strategy therefore calls for a macro economic programme, involving vigorous fiscal improvements, a gradual and credible reduction in interest rates in line with inflation and a stable and efficient financial system equipped to facilitate both medium and long term economic growth.

The government is also pursuing the achievement of broader social and environmental goals. Especially, the government remains committed to continue emphasis on education and training to provide the calibre workforce required for a more sophisticated working environment; and a growing economy. The government is equally committed to ensuring that growth and development is pursued with utmost respect and care for the environment, which, given the economic dependence on natural resources, is essential for sustainable long term economic growth.

The macro-economic programme, structural economic reforms in the form of trade and private sector development, environment and social development programmes all relate to the objective of reducing poverty, through protecting social services expenditure and generating economic growth and employment opportunities.

2.3 The macro-economic programme

Challenges

The **medium-term macroeconomic programme** focuses on restoring economic growth and is pursuing the necessary reforms. In this context, the consolidation of price stability complemented by vigorous fiscal adjustment and a completion of financial sector adjustment is of high

importance. The programme is predicated on the understanding that while past adjustment efforts have succeeded in stabilising inflation and the nominal exchange rate, stabilisation costs have become manifest in, among other things, a formidable (and rising) stock of public debt, high real interest rates and negative or flat economic growth.

Strategy

The main objectives of the macroeconomic programme to be pursued in the medium-term therefore are: a) real economic growth of one to two % per annum, b) inflation rates of five to six % per annum c) the maintenance of orderly adjustment in the foreign exchange market through the management of the speculative demand for foreign exchange and d) a build up of official international reserves, such that gross reserves cover 15 weeks of imports. The strategy will necessarily imply strong fiscal adjustments and a resolution of the public debt situation within the context of tight monetary control.

The **fiscal policy** will also focus on improvements in revenue-generation to be driven by improving the efficiency and effectiveness of tax administration, broadening the tax base and improving revenue collection through greater compliance. The management of expenditure will focus on the moderation of wage growth in line with inflation and the continued implementation of public sector reform.

Debt management strategies over the medium term are intended to achieve the following broad objectives: (i) reduce the stock of debt by paying off a substantial portion of the debt; and significantly reducing government borrowing requirement by achieving balance surpluses; and (ii) reduce the cost of debt (primarily through reduced interest rates and through replacing local debt by external debt). The government established the Financial Sector Adjustment Company (FINSAC) in 1997 to help in the rehabilitation of those financial institutions facing liquidity and solvency problems and to provide protection for depositors in these institutions. FINSAC is focussed on an exit strategy through the divestment of remaining assets and the financing of debt obligations, to improve the liquidity of its debt and to improve the performance of the intervened entities. The government will assume the remaining FINSAC debt at the end of 2000/01, with cash interest payments fully accounted for in the fiscal budget from that year.

2.4 Trade policies

Challenge

Jamaica will address an increasingly open and liberalized trading system.

Strategy

Jamaica is pursuing trade liberalisation in a number of fora. Jamaica actively participates in the WTO, including preparations for a New Round of multilateral trade talks. Jamaica is pursuing further liberalisation within CARICOM by reducing tariffs and eliminating quantitative restrictions, aiming to establish a single market by 2002. Jamaica is participating in the negotiations to establish the Free Trade Area of the Americas by 2006 and is negotiating free trade agreements with Colombia, Venezuela, Dominican Republic and Cuba. To prepare for the Economic Partnership Agreement (EPA) envisaged with the EU under the Cotonou Agreement, Jamaica has established a trade and adjustment team (JTAT) under the leadership of the Minister of Trade, which will assist in formulating and reviewing programmes and policies towards improved competitiveness and to guide trade negotiations with the EU.

2.5 Promoting private sector development

Challenges

Challenges include increasing investments, reducing high interest rates, improving access to credit, and improvements in the investment climate, improve international competitiveness of small and medium enterprises (SME) with regard to EPA's.

Strategy

Business development as a sustainable engine for economic growth is a first priority for the country. The government is promoting private sector development and agriculture through the following programmes:

- ▲ Improving infrastructure in particular in transportation, which will contribute to a more competitive operation. In particular, the poor condition of road infrastructure has been repeatedly identified as a major bottle-neck of the Jamaica productive sector, as well as having very negative effects on poverty, isolation on rural communities and rural development. The National Works Agency is reforming its operations to ensure greater efficiency in project implementation and better accountability. Its main priority is improving road maintenance through a combination of institutional strengthening and ensuring sufficient funding for this purpose. In infrastructure, as well as in utilities private investment is promoted.
- ▲ Improving the investment climate by the promotion of industrial harmony, and the modernisation and harmonisation of legislation dealing with incentives.
- ▲ Supporting the development of the most competitive sectors, including agriculture, agro-based processing selected manufacturing activities, tourism, the IT sector and other business services, based on programmes presented in the National Industrial Policy. In agriculture programmes address irrigation, efficiency and standardisation/certification for exports. To promote private investment in the IT sector the government implements an IT policy aimed at positioning Jamaica as a prime location for IT export services.
- ▲ Addressing the shortage of credit available to private firms, by providing loans at reduced interest rates servicing the productive and export sectors.

2.6 Road transport development

Challenge

To ensure a financially viable high-quality road transport network as a pre-condition for sustainable economic growth.

Strategy

With Jamaica having one of the most dense road networks in the world the government is clearly aware of the importance of road maintenance in the context of sustainability and overall economic development. The Ministry of Transport is presently completing a National Transport Policy which, once approved, is expected to help overcoming the still prevailing financial, institutional and administrative bottlenecks impeding a viable and properly maintained road transport network throughout the country. The forthcoming transport policy is intrinsically linked to the government's efforts to stimulate private sector growth since this document is partially based on the National Industrial Policy adopted in 1996.

2.7 Environmental protection

Challenge

Moving towards sustainable development over the medium term is the principal challenge of Jamaica's environmental policy.

Strategy

Particular attention will be paid to rationalising the institutional framework through the amalgamation and harmonisation of the physical planning and environmental management functions. The implementation of integrated Coastal Zone Management and Watershed management initiatives, the further institutionalising of Pollution Control and Waste Management measures will also remain high priorities.

2.8 Social development

Challenge

The broad challenge of the social policy agenda is to provide quality services and equitable access to social services.

Strategy

The main priority is ensuring adequate development provisions for children, especially in the early childhood years, providing equitable education and training designed to equip young persons for employment opportunities commensurate with the demands of a dynamic global labour market, promoting community development, and enabling adolescents to choose socially and personally desirable alternatives in relation to fertility, drug abuse and crime.

In health the government of Jamaica will continue to pursue the vision of "health for all" decentralising administrative structures into regional health authorities, reducing fragmentation and duplication of services. Measures will be taken to address shortages of health personnel in rural areas. There is a commitment towards cost recovery through user fees for those who can afford to pay. Policies and programmes will continue to focus on health promotion and prevention, with emphasis on chronic and lifestyle related illnesses, including HIV/AIDS. Special initiatives undertaken by the government in collaboration with NGOs will address adolescents/youth health issues.

In education and training the government is committed to maintaining an adequate budgetary allocation to the education sector for the medium term. It is also the government's intention to bolster the education sector through attracting private investment. Policies and programmes for youth education will emphasise the adequate accreditation of community vocational training

programmes. Areas of emphasis are: expansion of on the job training and providing higher levels of training.

Gender issues will continue to be addressed under commitments made at Beijing in 1995. Problems being addressed include gender based violence, male underachievement in education, women's access to economic power and decision making, teenage pregnancy and male involvement in crime.

2.9 Direct alleviation of poverty

Challenge

To reduce the level of poverty through direct interventions in poor communities and greater efficiency and effectiveness of the social security and welfare systems.

Strategy

Further to extensive consultations with all stakeholders, a framework for Jamaica's direct fight against poverty, the National Poverty Eradication Programme (NPEP), was presented to and approved by Parliament in March 1997. Seventy-two programmes and projects from eight ministries and the Office of the Prime Minister were identified as falling under the scope of the NPEP. A management structure named Programme Co-ordination and Monitoring Unit was established reporting directly to the Prime Minister for the successful implementation and sustainability of the NPEP. Government's approach to poverty direct reduction is community-oriented: the community is the central focus of the efforts towards poverty eradication. Government's policy seeks to marshal all available resources and re-orient them to integrated community development. Consequently, a poverty mapping exercise was undertaken jointly by the Statistical Institute of Jamaica and the Planning Institute of Jamaica in 1996 as one of the major tools to identify the communities that require the most urgent attention: a total of 506 communities were identified in the poverty map. The government will continue to support the implementation of social and infrastructure projects through the Jamaica Social Investment Fund (JSIF), a demand-driven facility that assists poor communities to upgrade their social and economic infrastructure. Consistent with the community-empowered strategy of the NPEP, the JSIF works in partnerships with NGOs, community based organisations and the private sector.

The government will continue to reform and rationalise the social security and welfare systems to achieve greater efficiency and effectiveness. Reforms of the social safety will involve consolidation of a number of programmes, improving the value of benefits, collaboration with private sector and NGOs, and better targeting. In the area of social security, ongoing reform of the pension system will result in wider coverage, and increased benefits.

2.10 Justice and Home affairs

Challenge

How to effectively address the high level of crime in a sustainable manner.

Strategy

An integrated approach to fighting crime is being pursued, which includes greater involvement of society in crime prevention, better crime management, community policing and improvement in access to the justice system. The initiatives include: implementation of a corporate strategy for the police force in the fight against crime, legal reform, expanding alternative sentence options and

rehabilitation programmes for prisoners, community based crime reduction initiatives, commitment to the establishment of a Caribbean Court of Justice (to inter alia replace the British Privy Council as the final Court of Appeal), expanding alternative sentence options and reintegration programmes for prisoners.

In addition, in the area of governance, local government reform promises to lend critical support to the more involved roles proposed and envisaged for communities island-wide. The government of Jamaica is committed to creating a modern and efficient public sector founded on accountability and integrity. Under the public sector modernisation project (PSMP) divisions that are engaged in policy formulation will be targeted for modernisation. The rationalisation of tax administration will continue. Furthermore, management information systems will be introduced to increase the efficiency of public sector institutions.

3 Analysis of political, economic and social situation

3.1 Situational analysis

3.1.1 Political and governance context

Jamaica became an independent nation in 1962. The principles of parliamentary democracy based on the Westminster model are well embedded in the society. The political scenery is dominated by two political parties, the People's National Party (PNP), which has been in government since 1989 having won three elections and the Jamaica Labour Party (JLP) in opposition. Under the Constitution elections are held every five years. Political participation is broadly exercised with voter turn out of around two-third at elections. Media are free and follow government policy and programmes critically. Jamaica civil society includes a wide variety of non-governmental organisations, representing community, professional and labour groups. Their role is becoming increasingly important, perhaps as a reaction to party politics, as well as poor economic performance and the attendant social fall out.

Jamaica scores well in cross-country comparisons of perceptions of corruption. The public financial systems are subject to accountability and public scrutiny puts pressure on improving transparency and accountability. The World Bank/DFID/EDF supported project aims at improving the efficiency of public expenditure. New anti-corruption legislation was passed in Parliament in 2000. An important governance related challenge facing Jamaica pertains to crime and violence. The country experiences an extraordinary high level of violent crime. Police and judiciary seem to lack of strategy and resources to improve this situation, the police resorting too frequently to simple counter-violence.

Further to the financial and fiscal crisis of the second half of the 1990s, the government of Jamaica has undertaken an institutional reform process, including strengthening the regulatory framework of the economic and financial activity, as well as modernising the public sector activity. In this regard, the Public Sector Modernisation Programme is being implemented, transforming a number of public sector entities into executive agencies, fully accountable for their performance and results. Substantial work is being undertaken on public expenditure allocation and management. In

particular, the strategic review of the Ministry of Finance and Planning, carried out in 1999 by external consultants financed by DFID, made a number of recommendations improving the budget process. The government accepted most of the review recommendations and it is at an advance stage in their implementation. Consequently, establishment of Public Expenditure Units for each ministry/sector is underway that will integrate the different phases of the public expenditure cycle along with Policy and Co-ordination Units responsible for public expenditure policy. A Guide for preparing Public Expenditure Reviews has been prepared with a view to developing a comprehensive spending review programme, which will become a regular part of the budget process. Initial activities are being carried out with the support from the EDF during 2001.

Amendments to the Bank of Jamaica, Securities, Insurance and Unit Trust Acts have been recently passed in Parliament. Moreover, the Financial Services Commission was established in early 2001 as a supervisory body governing activity in the sector. The IMF Staff Monitored Programme of 2000 foresaw further structural reform benchmarks, which by mid-2001 were being achieved as planned.

3.1.2 Trade policy and trade relations

The importance of external trade in a small island economy such as Jamaica cannot be over-emphasized. Total exports and imports in value are equivalent to, respectively, 20 and more than 40% of GDP. The trade deficit is considerable and widening, with value of exports not reaching 60% of the value of imports. The balance of payment current account is traditionally negative, since the positive services balance (tourism) and current transfers (emigrants) do not offset the deficit of trade in goods. The balance of payments depends on net foreign investment, official and private, in Jamaica. Although there is currently no problem of balance of payments in the short-term due to higher than ever inflows of external capital, increasing the export capacity is necessary to restore external balances in a sustainable manner.

Trade between the European Union and Jamaica approximately accounts for 30% of domestic exports and 10% of imports in the late 1990s. This means that the EU is the second most important market for Jamaica (behind the USA) and that, in marked contrast to the North American Free Trade Area or the CARICOM, the trade balance with the EU is traditionally positive. Furthermore, the growth of exports from Jamaica to the EU has followed a similar pace to the increase in imports from the Union: during the nineties, the export/import ratio moved from 162% in 1990 to 210% in 1999 in favor of Jamaica. Main exports to the EU are aluminium ores, sugar and textiles. Main imports are machinery, chemicals and vehicles.

Jamaica enjoys preferential access to the EU under the Lome/Cotonou trade preferences and protocols. The net benefits to Jamaica of the sugar, rum and banana protocols have been conservatively estimated at € 50-70 million per year. However, even though the trade preferences and protocols remain in force for the time being, their benefits are being eroded by the effects of the Uruguay Round on the EU Common Agricultural Policy and the effects of the WTO ruling on the banana regime. Under the Sugar Protocol Jamaica has undertaken to export up to 118,300 tons to the EU. However, the Protocol will be reviewed in the context of the EPA negotiations. Meanwhile, the "Everything but arms initiative" to extend duty and quota-free access to all products originated in Least-Developed Countries (LDCs), except arms and ammunition, includes the sugar sector.

The Cotonou Agreement signed in June 2000 between the EU and the ACP states foresees that new WTO-compatible trade arrangements will be concluded no later than 2008. Negotiations on these EPAs are scheduled to begin in 2002. The trade and adjustment team (JTAT) which was established under the leadership of the Minister of Trade, has started its work by starting a series of consultations with the private sector and other groups of civil society. The JTAT is receiving technical assistance under the 8th EDF.

Jamaica has favourable access to the USA market, which accounts for 36% of its exports, in the framework of the Enhanced Caribbean Basin initiative since 2000 (CBTPA, Caribbean Basin Trade Partnership Act). The benefits apply to a wide range of goods, including apparel and footwear.

Jamaica has made considerable progress in establishing a variety of trade agreements. Within the framework of CARICOM, it has been liberalising its trade regime since the late 1980s. It has adopted the fourth and last phase of the Common External Tariff (CET) in 1999, lowering tariffs, phasing out quantitative restrictions to be replaced by tariffs. The maximum tariff is 20%, except for a range of sensitive products. CARICOM is expected to become a single market in 2002. As a consequence of its commitments within WTO, Jamaica is amending its legislation and procedures in a number of areas, including intellectual property rights, anti-dumping, and government procurement. New legislation on customs valuation has recently been passed in Parliament.

3.1.3 Economic performance

Substantial **economic reforms** were introduced in the late 1980s including import liberalisation, domestic financial sector liberalisation, removal of capital controls, wide ranging privatisation of government owned enterprises, and tax and labour market reforms. Initially this process of liberalisation resulted in high inflation and devaluation of the currency. To protect the currency and to reduce inflation, the government introduced a restrictive monetary policy, resulting in high interest rates. The reforms generated positive macro-economic results. There was an improvement in the external position, as net international reserves became positive after 1993. Inflation, which was averaging 39% per annum between 1990 and 1995, has trended downwards, averaging 7.5% annually since 1997 and ending in 2000 at 6.1%.

The **overall growth performance** during the 1990s, however, has been poor with an annual average real GDP growth rate of 1.2% for the first half of the 1990s, and a decline in real GDP of 1.1% between 1996 and 1999. GDP per capita stood at 2,690 US \$ in 2000. Stagnation in GDP has, however, not had a commensurate impact on consumption. During the 1990s, private consumption increased as a percentage of GDP. This increase in expenditure has been financed largely from remittances and foreign investment. In recent years remittances, have amounted to around US\$ 600 million, or 15% of private consumption. Remittances combined with a high rate of migration have played a considerable role in cushioning the impact on levels of living for a declining per capita GDP over the past decades. Within the next few years, economic growth would most likely be concentrated in higher value added activities, such as IT sector, financial services and transport services. Niche agriculture productions, non-traditional agriculture exports and aqua-culture could also grow. Tourism services could also register important growth in segments currently not developed, such as rural tourism, eco-tourism, the Southern coast and the Kingston area.

The **labour market** is characterised by high and chronic unemployment with an unemployment rate estimated at around 16% of the labour force for 1999. Unemployment is particularly high among females and youth. The labour market in the 1990s has also been characterised by rising real wages, in the face of stagnating productivity, and perhaps consequently a decline in formal sector wage employment in favour of more casual types of employment. It is suspected that a significant shift in employment has taken place from the formal to the informal economy.

Declining real GDP between 1996 and 1999 resulted to a large extent from serious problems in the **financial services sector**. In the face of a threatening collapse of the financial sector, the government took over 12 financial institutions, which included commercial banks, merchant banks and insurance companies. The government established FINSAC in 1997 to help in the rehabilitation of those financial institutions facing liquidity and solvency problems.

Other sectors, which experienced declines in value added during the 1990s, included **manufacturing and agriculture**, due to declining competitiveness and in the case of agriculture, a severe drought. On the other hand, the **bauxite industry** has grown at a modest pace of 1.2% between 1996 and 1999, while throughout the 1990s, **tourism** has been performing well. The number of visitors increased from 1.2 million in 1990 to over 2 million in 2000. Tourism expenditure is estimated to have increased from US\$ 1.2 billion in 1990 to just over US\$ 2 billion in 2000.

Despite stagnating economic growth, **land transportation** has increased significantly during the 1990s putting an increasing burden on the road network. Because of the increased traffic burden, the insufficiency of a roads policy and strategy, the unplanned nature of road investments and low priority given to maintenance, the quality of the road network has deteriorated significantly. Today 50% of the entire road network is in bad or very bad conditions. The most distressed sections are the secondary and tertiary roads while the parochial roads providing the only access to the hinterland, where agricultural production takes place, deteriorated even further with only 10% presently in good or fair conditions. Poor road conditions have not only adversely affected production as goods cannot be transported to markets but also access to social services for disfavoured groups.

The **fiscal situation** has been characterised by high deficits which have averaged 6.6% of GDP in the period 1996 to 1999 and an increasing debt service burden (around 60% of the budget expenditure estimates in the last 3 fiscal years). In the fiscal year 2001/02 FINSAC's debt will be taken on by the national budget with interest payments on this debt to be paid from the budget. By end 1999 total debt as a percentage of GDP amounted to close to 117% of GDP (68.3% domestic and 48.7% external). Taking over the FINSAC debt will increase total government debt to 161% of GDP.

3.1.4 Poverty and access to social services

Jamaica's population is estimated to stand at 2,6 mio, with an annual growth rate of 0.46 %. The migration rate is relatively high with 8.39 migrants per 1000 inhabitants in 2000. Despite Jamaica's poor track record of economic growth, many of the country's social indicators, (such as life expectancy at birth, access to safe water or female education enrolment rate) are fairly good and recent trends indicate declining poverty. Overall, Jamaica scores quite well on a number of the best

known human development indicators: Jamaica's level of human development was ranked 83rd out of 174 countries in 2000 as opposed to 82nd the year before in the current Human Development Report commissioned by UNDP.

The country has a commendable gender equity record, whether considered regionally or in the wider developing world. Indeed, according to the year 2000 UN Human Development Report whereas Jamaica earned a #82 ranking on the Human Development Index (HDI) its Gender Development Index (GDI) ranking was at #69, notably higher. This is clearly illustrated via a comparison of the countries presented in Table 2 on their respective ratio of GDI to HDI rankings. Whereas six of the countries have a higher HDI ranking than Jamaica, only Panama has a better GDI to HDI ratio. Still, unemployment has traditionally affected women more than men, although females have a higher enrolment rate than males in secondary and tertiary schools, and their attendance record is also notably better. The gender gap in wages has decreased steadily over the years and the female labour force participation at 56.7% in 1999, is among the highest in the region.

The country also has achieved a relative high average life expectancy (72 and 76 years for males and females respectively), satisfactory levels of infant mortality (24.5 per thousand), a fair record of child immunisation (82.0% of 0-1 yr.) and relatively good access to safe water (81.2% of the population) and sanitary facilities (99%).

Notwithstanding Jamaica's positive human development status, poverty remains a serious problem for the country. Although poverty is a broad notion encompassing poor living conditions in general, for the purpose of this strategy document, poverty is defined in terms of statistical average of per-capita consumption. The annual Survey of Living Conditions published jointly by the Statistical Institute of Jamaica and the Planning Institute of Jamaica indicates that between 1990 and 1996, using a consumption-based per capita poverty line, almost one third of the population and close to one fifth of the households lived below the poverty line. Since 1996, there is a substantial decline in the incidence of poverty. The latest issue of the Survey of Living Conditions indicates that in 1999 only 16.9% of the households in the island were below the poverty line. The lowest figures since the inception of the Survey in 1988 has been in 1998 (15.9). This can be explained, despite the negative economic growth performance in recent years, by the low inflation rate since 1996, real wages increases, growth in the informal sector of the economy and the success of public and private poverty reduction programmes.

Many of the poor actually work, but in low paying activities. Poverty is largely a phenomenon of the working poor as demand for their labour is not strong enough to push up real earnings, and they lack skills and access to higher-paying jobs. The majority of the poor are to be found in a narrow occupational range of farmers, agricultural labourers, self-employed, domestic servants, street vendors, crafts persons and operatives. There is also a strong correlation between poverty and poor schooling, teenage pregnancy, drug abuse, domestic violence and psychological problems.

The incidence of poverty is higher in rural areas (69% of the poor). The prevalence of poverty is significantly higher for female-headed households than for male headed households (66% of poor households are female-headed). The age structure of the poor has shifted slightly towards the aged and children under 18 in the past decade. Although the poor do not necessarily lack basic education, there is a strong linkage between enrolment in secondary education and wealth. Malnutrition is still

an issue in Jamaica, certainly correlated to poverty. According to the Caribbean Food and Nutrition Institute, 30% of Jamaicans suffer from malnutrition.

Poverty is obviously linked to the distribution of wealth and reflected in the consumption patterns. Available data on consumption suggest a high degree of inequality with a Gini index varying around 0.38 throughout the 1990s. As per data from the Survey of Living Conditions 1999, the wealthiest 10% of the population consumed per capita in 1999 on average 12.5 times more than the poorest 10%. In 1998, the figure was 11 times, which indicates that wealth disparity, though still within world average values, has widened.

The poor are not only characterised by low levels of income and consumption, they generally also have poor access to social services, including quality education and health care. Many of the poor live in squatter communities with substandard housing and limited access to running and/or treated water supplies. Poor road conditions in the hinterland render physical access even more difficult. Social services delivery is being constrained by scarce resources. This constraint has been exacerbated by the need to devote an increasing share of government revenue to servicing the debt burden.

3.1.5 Crime and drugs

Rising youth unemployment and poverty incidents notably in disfavoured urban districts contribute to the prevailing high crime rate in Jamaica. The vast majority of the 885 murders committed in 2000 however were either reprisal killings or linked to gangs and drugs. Many of the gangs which, in the past, were reported to have been divided along lines of political affiliations with leading Jamaican political parties, engage today in drug trafficking. Jamaica has become the region's leading trans-shipment point for cocaine to Europe and the US (an estimated 72 metric tons of cocaine in 2000). Nearly two third of all people arrested for cocaine smuggling in US airports in 1999 had arrived from Jamaica. Law enforcement officials claim that lack of resources prevent them from controlling trafficking more effectively. The police's efforts to crack down on organised crime notwithstanding, human right groups, including Amnesty International, criticise the law enforcement agencies for reacting too often in an overly brutal manner and indiscriminately.

3.1.6 Environmental issues and sustainable development

Jamaica's main economic sectors are supported by natural resources, including agriculture, bauxite mining, manufacturing and tourism, but also contribute to environmental degradation. Increasing population pressure and changes in consumption patterns are contributing to environmental pressures, including the amount of waste generated in the society. In order to control pollution, standards and regulations have been introduced, but scarcity of resources is slowing down the effective enforcement of established environmental standards in the planning and implementation of economic activities.

3.2 Challenges for economic and social development

3.2.1 Challenges for economic development

Achieving **sustainable growth** is essential to recover from the present economic problems and to address social and environmental issues. The government and the IMF are expecting modest growth rates of around 1.5-2% over two to three years. An important condition for realising growth is pursuing the planned **macro economic reforms** including the addressing of the **public debt problem** through fiscal tightening and debt reduction. In order to tackle this large debt burden, the government has developed a strategy for public debt reduction, which is set up within the framework of a Staff Monitored Programme (SMP) agreed with the IMF. The programme centres on the establishment of substantial primary budget surpluses to be realised through tightening expenditure and improving the effectiveness of the revenue collection machinery. Under financial sector reforms, remaining assets under control of FINSAC will be disposed and prudential legislation will be introduced.

An important question is how growth will be generated. This question has to be addressed from an international perspective where Jamaica is becoming increasingly integrated in regional and global markets (EPA with EU, CARICOM, FTAA). Progressing liberalisation is resulting in both competitive pressures, as well as creating market opportunities. Because of the small size of its market, the main source of growth in Jamaica in the coming years will have to be **exports**, which is recognised in the country's medium term economic framework and the National Industrial Policy. To realise export-led growth requires improving **competitiveness**. Increasing competitiveness can be achieved by increasing productivity which might imply cost reductions. Reducing costs may lead to declines in real earnings, thus implying sacrifices in terms of declining living standards. This would have to be recognised and agreed upon by the parties involved both employers and unions, supported by the government. In order to regain competitiveness the government has relaxed its policy of maintaining a stable exchange rate, aiming at a more balanced policy based on the need for stability and maintaining competitiveness. Consequently, the real effective exchange rate has been allowed to depreciate by 4% in 2000. Improving productivity calls for considerable investments in restructuring and expanding production. Investments by local businesses will need to be supplemented by substantial foreign investment. Critical for future market access of Jamaican products and services to developed markets and consequently the development of the private sector, are also issues related to sanitary and phytosanitary product quality and standards. Last but not least, given the proximity of the US market and a similar same time zone, the usage of English and the availability of relatively cheap labour, there is significant potential for ICT-related services such as calling and booking services or www-hosting. These activities are typically performed in an SME environment.

The restoring of the **financial sector**, through restructuring and the introduction of prudential regulations, is required to improve financial inter-mediation and efficient allocation of resources to the private sector in support of higher growth. Other **structural reforms** which are needed to make investing in Jamaica more attractive include further privatisation, a reduction of administrative barriers, simplification of the system of incentives, reforming labour legislation, addressing the crime issue and facilitating private investment in public infrastructure.

A stable and efficient legislative and institutional framework with transparent authoritative structures and accountable institutions is an essential prerequisite for a sustainable development, facilitating investment and, thus, economic growth. This includes a satisfactory level of security based on an effective judiciary and a police force respecting human rights and applying non-discriminatory means of law enforcement. Fighting crime while at the same time living up to international accepted standards of prosecution including the rights of suspects or offenders constitute, therefore, an important aspect of good governance as well as of economic development.

The ability of the private sector to respond to macro economic improvements is not only being constrained by external, but also by **internal factors**. Within the companies, considerable weaknesses need to be tackled relating to management, organisation of production, product development and marketing. These constraints apply across sectors from agriculture to services.

The recovery of growth also requires improvements in the **quality of infrastructure**, particularly in the **transportation network**. Improvements in this network are needed to facilitate efficient transport at reasonable costs and a more balanced regional distribution of economic activities. It is urgent, therefore, to formulate a roads sector policy and strategy with key stakeholders (public and private sectors as well as donors) to address road maintenance both through improved systems and adequate funding. Structural improvements in funding mechanisms for road maintenance need to be introduced in the light of the continued need to maintain tight fiscal budgets. This requires the adoption and consistent application of a comprehensive road maintenance strategy addressing both the institutional bottlenecks, e.g. National Works Agency, parish councils, utilities companies, and financial constraints, e.g. medium-term public sector investment and financing plan for road maintenance on a sustainable basis.

3.2.2 Challenges for social development

Growth has to be inclusive. In this context the government appropriately emphasises strengthening the accessibility of social services, including improving education and training, improving health and rationalisation of social safety net programmes.

With regards to **education** there is a greater appreciation by all stakeholders of the importance of **early childhood development** in the achievement of literacy and other human development objectives. As a result, greater emphasis needs to be placed on this level, where most of the facilities (80%) are community owned and operated.

At the **primary level** there is concern regarding quality of output, where many pupils are exiting the primary system without having achieved an acceptable standard of literacy. Efforts have been made to improve curricula focussing heavily on literacy/numeracy fundamentals. Efforts need furthermore be made to improve attendance which is estimated at an average of 70%. The primary level is also affected by a lack of proper facilities in many school plants.

At the **secondary level** enrolment is closely correlated with income, and is notably lower than at the primary level. Efforts are needed to increase the number of school places beyond grade nine and to improve learning outcomes at all levels. One of the most pressing challenges in the social agenda of Jamaica concerns **youth at risk**. Factors which play a role include poverty, low quality of education and absenteeism from schools, lack of employment, poor reproductive health and a high rate of

teenage pregnancy, unstable home environments, and involvement in or exposure to illicit and violent activities. A particular important challenge is the increased consumption of drugs.

With regards to **health**, accessibility to prescribed medicines/drugs and services has been a major challenge to the poor in Jamaica. Slippage has occurred in the child immunisation programme and needs to be improved. A major issues of concern is the increase in the incidence of HIV/AIDS, especially among adolescents, despite significant government efforts to address this problem.

A challenge is the development of **effective social service delivery instruments and mechanisms**. The implementation of **local government reforms** will assist in empowering communities more in managing resources and in looking after their own needs, though lack of resources are a significant constraint in moving ahead with local government reforms. A remarkable development in the delivery of social services is the increasingly important role of **NGOs/CBOs**. These organisations are intervening to fill the voids left by the government in providing social services. For the extension of **water supply** major challenges are the development of new sources of water for urban areas and extending the system in rural areas. Important issues are community involvement and cost recovery.

Limitations in resources are an important challenge for pursuing the priorities in social services. As the debt servicing requirements are increasing due to the inclusion of FINSAC debt in the budget, there is a threat that the shares of government spending on social services will be decreased, endangering much needed improvements in the system of social services delivery to the poor.

3.2.3 Challenges for sustainable development

Priority actions in the field of **environment** include developing environmental management systems, waste management (incentives for recycling, fees for pollution), extending sewage treatment facilities, land resource planning and management, forestry and watershed management, sustainable agricultural and tourism development, and protection of ocean, sea and coastal resources. There is a need to make more effective use of fiscal instruments to promote protection of the natural resource base, but also enforcement of existing standards is required. In order to improve the effectiveness of programmes, increasing attention is to be paid to involving communities, introducing environmental concerns in the educational system and public education. Related to environmental issues is that of **disaster preparedness**, requiring preventative measures and adequate plans to deal with disasters (hurricane season is between June and October).

4 Assessment of past and ongoing co-operation

Some 13 development partners are supporting the Jamaican development agenda. Organisations which have large and comprehensive assistance programmes include: IADB, WB, CDB, EC and JICA. Other important co-operation partners are CIDA, USAID, DFID (UK) and UNDP. The EC is the largest grant donor. The EC's programme is complementary to those of the other international development partners, particularly WB, IADB, and the UK. Examples of joint co-financing of actions can be found in the Credit Scheme for Micro and Small Enterprises, Jamaican Social

Investment Fund, the Public Sector Modernisation Project, the North Coast Highway Project and, most important, the structural adjustment support operations (SERP).

PIOJ is co-ordinating international co-operation for the government. In addition, the UNDP Resident Representative has acted as co-ordinator of the UN system and as chairperson of the international development partners in Jamaica, organising regular meetings to discuss and review strategic matters of common concern.

Total assistance from the EC to Jamaica since the beginning of the Lomé Convention in 1975 can be estimated at some € 550 million broken down. This amount does not include the benefits of regional programmes, the benefits of Lomé trade preferences, the sugar, banana and rum protocols.

During the early 1990s, the EC's strategy for Jamaica was based on a four pronged programme that attempted to link the nature and scope of financial instruments available to key activities that would impact positively on employment and economic growth. The four main areas of co-operation were:

- ▲ support to economic infrastructure, particularly roads and water in the case of Lomé funding and extension of container terminals in Kingston in the case of the EIB;
- ▲ structural adjustment support,
- ▲ support for small farmers and small and micro enterprises and
- ▲ trade and foreign investment promotion.

These programmes continue to be an important part of the EC's development efforts, the major themes currently addressed include: poverty alleviation, adjustment efforts, trade and private sector development, human resource development and infrastructure.

The funds allocated to Jamaica under previous Lomé conventions have been fully committed. Generally speaking the implementation has been satisfactory, according to a mid-term review of the NIP of 1999. This review noted that delays and technical difficulties had occurred in some projects, especially in the road rehabilitation and sewerage sectors, due to deficiencies in both the Commission and the Jamaican administration, as well as lack of trained staff in the agencies implementing the projects. In general, however, the funds have been spent to achieve the initial objectives, and the administration has been fairly efficient in implementing them. In Jamaica, the beneficiaries normally assume ownership of projects, which guarantees a certain degree of sustainability.

Apart from EDF funding, various European Commission Budget Lines have financed projects in Jamaica. Jamaica has obtained support under the special system of assistance to ACP banana suppliers for raising competitiveness in the local banana industry, as well as for diversification of economic activities. The project progressed well and has been completed by the end of December 2000. As part of the project Environment in Developing Countries, support is provided to the Negril Coral Reef Preservation Society. A project to Restore and Maintain Parklands in the Blue Mountain and John Crow Mountain National Park, has been delayed since its beginning in October 1997. A project on human rights is being implemented through the International Jamaican Council for Human Rights (IJCHR), which finances a public education programme, advocacy and legal work.

Historically EIB has provided a number of global loans both to the National Development Bank of Jamaica and the private Trafalgar Development Bank. Due to the developments in the financial sector no new lines of credit have been set up since 1995. EIB's second sector of focus has been the port facilities through the Port Authority of Jamaica. Two projects have been finished for the Kingston Container Terminal, with a third project just launched. In Montego Bay, on the North coast of Jamaica, EIB has financed an expansion of the cruise ship terminal as well as the expansion of a free zone area within the port premises. Transshipment of goods is expected to grow rapidly over the next few decades. Due to Jamaica's strategic location for international transshipment the container terminals represent therefore a development opportunity and stable source of foreign exchange for the country. A third sector that has benefited from EIB support is telecommunications through a loan of EUR 40 million to Cable & Wireless for the expansion and update of the national and international network of the company. The project was completed as foreseen, but further interventions are unlikely in this sector over the next few years.

The activities of the different development cooperation partners of Jamaica are summarised in a donor matrix which is represented in Annex 3. The UK is the main EU member country which is providing support to Jamaica. Its programme focuses on public sector reform, education reform, debt relief and urban poverty. Germany is winding down its co-operation programme. It has programmes in health, energy and training. The IDB, CDB and World Bank focus on macro economic stabilisation and financial sector reform. The IDB is furthermore assisting primary education, health sector rehabilitation, water supply, and road construction and maintenance.

5 The EC response strategy

5.1 Summary of EC response strategy

The EC response strategy is derived from the economic and social analysis, the government strategy and the activities of other development co-operation partners, taking into account the views expressed by civil society groups. The response strategy supports the government strategy of macro economic reforms, as well as policies to promote investment and human and social development. The overriding concern of the suggested EC response strategy is to contribute to the alleviation of poverty. In order to alleviate poverty, the government is seeking to enhance economic growth. Private sector is considered the most effective engine for growth and the development of business activities should be supported and facilitated. At the same time, the macro-economic fundamentals, particularly the debt situation, should be restored to sustainable levels. Improved transport infrastructure is another critical requirement for the creation of an enabling environment conducive to business development, with the Commission having a comparative advantage in the road sector given the extent of the EC's involvement under previous EDF allocations.

The components of the strategy are strongly inter-linked and mutually enforcing. The strategy is composed of the following components.

1. A **macro economic support programme** providing assistance to the government's economic reform programme aiming at a stable macro-economic environment and at the achievement of government's policy to reduce poverty and its targets set for the social sectors, such as health,

education and social safety-net programmes. The programme will also assist government in its efforts to strengthen public finance management.

2. **Private sector development**, through developing a broad-ranged programme of business advisory services, to strengthen the supply response once macro conditions improve and to deal with a more open economic environment resulting from the extension and deepening of regional and global co-operation agreements. This programme of business advisory services will be supplemented by an EIB programme of financing for investments to be made by SMEs in core sectors of the economy, and accessible through banks. A more robust private sector will contribute directly to employment creation and poverty reduction.
3. **A sector-based approach for the transport sector (road sub-sector)**, targeting the improvement of the quality of the road network based on a comprehensive and coherent road maintenance strategy still to be developed. This strategy would also form the foundation for future interventions by other development co-operation partners. The programme will be divided into two components: (i) capacity building for development of a roads policy and strategy formulation, adaptation and implementation and (ii) a separate component capacity building for the implementation of an effective road maintenance programme as well as funding for road maintenance. This programme supports private sector and export development, especially in areas outside the capital by improving access and reducing transportation costs, enforcing the impact of the macro and private sector programmes on employment and poverty reduction.
4. **A non-focal programme** of decentralised co-operation focusing directly on poverty alleviation and implemented through participatory decentralised cooperation in order to strengthen community involvement in development.

In developing the response strategy achieving coherence with regional programming objectives has been pursued, though regional programming is far less advanced. Through support to economic growth Jamaica's integration in the world economy will be facilitated. The development of a more competitive private sector will support international and regional integration.

5.2 Components of the response strategy

5.2.1 Macro economic support

Background

The government's debt reduction strategy requires the implementation of a strict fiscal regime to achieve the targeted primary budget surpluses /necessary for being able to retire part of the high debt. This strategy will put high pressure on government expenditure and particularly on its ability to allocate sufficient resources to improve access to social services of the poor. In this context, it is proposed to allocate part of EC assistance to budget support. Such a programme is appropriate as the Community has a comparative advantage in this area due to size. The budget support programme will build on budget support already provided by the EC through its SERP I and II programmes. SERP II budget support, as is that of SERP I, will be implemented in the context of the IMF's Staff Monitored Programme and linked to a WB/IADB/CDB loan operation related to FINSAC. In terms of public finance management, the project will build on support provided through the PSMP to selected ministries (Finance, Education, Health, National Works Agency and PIOJ). Given the importance of the debt situation in Jamaica, other donors are currently considering

direct budget support operations in Jamaica, such as Canada, as well as bilateral debt relief operations from United Kingdom, the Netherlands and Canada.

Overall objective

Promoting sustainable economic growth over the coming years and contributing to poverty reduction.

Programme purpose

Strengthening government's capacity to effectively implement over the medium term a growth-oriented and poverty-focused macro-economic policy under conditions of continuing fiscal constraints.

Results

The EC's budgetary support is expected to assist the government in its efforts to reduce external and internal debt and provide adequate resources to the government's discretionary expenditures for social services. It shall relax the pressure on government for reducing expenditures on social services and, combined with sound financial management and effective delivery mechanisms for social services, the support will facilitate achieving government's qualified and quantified targets for social services and good governance.

Assumptions

The effectiveness of the budget support programme depends on the government's overall efforts in terms of maintaining strict overall expenditure policies, as well as the government's ability to improving the effectiveness of spending on social services. It is assumed that the Government succeeds in attracting sufficient donor support in the context of a co-ordinated strategy for debt reduction and direct budget support. An important risk is related to the occurrence of major external shocks such as natural disasters, or force majeure.

Factors ensuring sustainability

It is important that the government implements the strategy, policies and programmes it has defined in its MTEF with regards to macro reforms, as well as its plans to strengthen good governance and improve quality and access to social services. Success is measured against the results reached in the context of the SMP of the IMF. The budget support programme requires that accountable public financial management practices be in place, on the basis of the support already granted under SERP I in the areas of fiscal planning and expenditure review. The introduction of social targets will contribute to reducing poverty. Support for institution building will contribute to the sustainability of reforms. Continued technical assistance is needed in the fields of debt and public expenditure management.

It should be emphasised that no explicit link is to be made between the amount of budget support and additional government expenditure on social services. In other words, it is not expected that the government increases expenditure on social programmes up to the level of the budget support grant. The achievement of the social targets depends, inter alia, of the effective use of the budget earmarked for social services in the context of the government's policy on poverty reduction and social sector development.

5.2.2 Private sector development

Background

The improvements in the macro economic environment, especially the projected reduction in interest rates, are expected to result in increased investments by the private sector. As a

consequence of adverse macro economic conditions, the liberalisation in the early 90s has not resulted in a significant reallocation of resources to new profitable investment opportunities. Lack of investment in new technologies has further contributed to lagging competitiveness in many companies, especially SMEs. Under these conditions there is an important risk that the private sector will be slow in responding to the new opportunities provided by macro economic reforms, and by trade liberalisation in the regional (CARICOM), inter-regional (e.g. Cotonou EPAs) and multilateral (WTO) contexts.

The country's growth strategy should therefore be two-pronged, whereby macro economic reforms are supplemented by support to small and medium scale enterprises, in order to speed up their supply response. The sectors in which the strongest supply response is expected include agriculture, agro-processing, selected labour-intensive manufacturing, tourism, IT and other business services. Private sector growth can be expected to result in the creation of employment and therefore in addressing poverty. For this reason the strategy proposed for support by the EC has a strong private sector development component. The private sector development component will also address capacity constraints in the banking sector in support of an EIB financing programme for SMEs.

The EC has gained considerable expertise in implementing private sector development programmes. The programme will build on the experiences which have been gained in EC supported projects in Jamaica (Target Europe 2000, the Trade Development Project, the Eastern Jamaica Agricultural Support Project, EJASP, and the ACP banana support programme aiming at raising the competitiveness of the banana industry and diversification) and supplement activities supported by other co-operation partners. The programme is also complementary to support from other Community funding initiatives, such as CDE, Pro-Invest and EBAS¹.

Overall objective

Achieving sustainable private sector growth and employment generation.

Project purpose

Improving the competitiveness of the SME sector.

Results

The EC support will result in more competitive business practices in terms of management, product design and quality, organisation of production, working procedures, standards and technologies, as well as better access to financial institutions, especially for SME. In addition, business services for SME will have been improved. The project will also result in an improved capacity of the banking sector in lending to small and medium-sized enterprises and in facilitating the implementation of an EIB lending/loan guarantee programme for SMEs (see 5.3).

Assumptions

It is assumed the macro economic environment improves, leading, inter alia, to more affordable interest rates. It is also assumed that there is a demand by the private sector for the services to be provided by the programme and that these services are effectively delivered. Furthermore, it is assumed that the exchange rate policy will be conducive for maintaining competitiveness.

Factors ensuring sustainability

¹ CDE is the Centre for the Development of Enterprises based in Brussels. Pro-Invest is an EU programme which is designed to act as a catalyst for increased investment and business to business co-operation with and within the ACP regions, EBAS stands for EU/ACP Business Assistance Scheme, a cost sharing scheme for private enterprises in ACP countries aiming at increasing competitiveness of enterprises in ACP countries.

Sustainable private sector development will furthermore depend on a number of key government measures to improve the business environment. These include: reducing administrative barriers, simplifying investment incentives, reducing labour market rigidities, and addressing the problem of security. The EC support will actively promote the respect for environmental standards and the introduction of sustainable technologies. It will also encourage labour-intensive economic activities, thus creating employment for vulnerable groups such as unskilled workers, young entrants into the labour market and women.

5.2.3 Road transport development

Background

A well-maintained infrastructure is needed to facilitate economic development. Roads are the mainstay of the country's transportation system. However, as a result of lack of a road sector policy and strategy, uncoordinated maintenance planning, insufficient and insecure finance for maintenance, many roads are in very poor condition, resulting in reduced accessibility, and high transportation costs. Poor road maintenance is a result of lack of funds as well as poor road maintenance management. For implementing an effective programme of road maintenance a road transport strategy needs to be developed, based on which support to road development and maintenance can be provided in collaboration with other development co-operation partners. This strategy should address the issue of sustainable funding for road maintenance. A road maintenance programme will facilitate private sector development, especially outside Kingston, by improving market access and reducing transportation costs. The road maintenance programme will build on lessons learnt in past road programmes supported by the EC, including the Northern Coastal Highway Improvement Project (NCHIP), the Rural Road Rehabilitation and Institutional Strengthening Project (RRISP) and especially the study to "secure finance for road maintenance in Jamaica" (ACP JM 047, Project No 7). The road programme will furthermore complement other EC-funded programmes such as EJASP, which also addresses road improvement in rural communities and the ACP banana programme.

Overall objective

Improving access to markets and social services.

Project purpose

Improving the quality of the road network in rural areas.

Results

As a result of the EC support the Jamaican authorities will have (i) developed a coherent and comprehensive road maintenance strategy, (ii) an improved capability of implementing a comprehensive road maintenance programme and (iii) improved funding for road maintenance.

Assumptions

The authorities will strictly adhere to the adopted road maintenance strategy, provide sufficient co-funding in the context of a medium-term public investment plan and carry out a co-ordinated strategy of donor-financed support for the road maintenance sub-sector.

Factors ensuring sustainability

A realistic investment plan on the basis of existing needs and revenues available as well as targeted institutional strengthening measures will contribute to the sustainability of the programme. The net environmental effect is difficult to predict since an improved quality road network will reduce the amount of pollution per km driven, but could also result in more traffic. Reduction of travel costs

will improve the relative competitiveness of areas outside Kingston, thereby generating economic activity and employment with poverty reducing impact.

5.2.4 Non-focal programme

The focal interventions will be supplemented by a non-focal programme of decentralised co-operation focusing on poverty alleviation and implemented through participatory decentralised co-operation in order to strengthen community involvement in development. This will allow for an effective participation of the civil society in programme preparation and implementation. This programme addresses crosscutting issues, such as environment, competitiveness, capacity building, human rights and good governance. Under this programme support will be provided for institutional strengthening related to the community empowerment and the delivery of services to communities. Furthermore, studies will be supported. These studies will address issues related to the effectiveness of empowerment programmes, such as impact assessments of empowerment (i.e. to what extent has social capital been built), and assessments of the sustainability of empowerment programmes. A PMU will need to be set up to manage the programme.

In addition to the decentralised co-operation programme, support could be provided for capacity building and institutional strengthening in order to facilitate the implementation of the NIP.

5.3 The European Investment Bank

The European Investment Bank shares the analysis of the Jamaican economic situation. The role it can play as a lender integrates well into the private sector development programme of the EC Country Support Strategy. Traditionally the Bank provides financing, loan and equity, for investments for expansion and refurbishment by small and medium sized enterprises through local financial intermediaries. To date EIB funds have been accessible through the Development Bank of Jamaica, the Jamaica Venture Fund and the Trafalgar Development Bank.

Under the Investment Facility of the 9th EDF the EIB intends to expand the network of financial intermediaries through which it works in Jamaica. This will be done through the establishment of lines of credit, for financing of investments made by SMEs active in core sectors of the economy, accessible through banks meeting the financial and operational requirements of the Bank. Financing under this facility may, where appropriate, be combined with the business advisory services proposed by the Commission. The facility features will depend on requirements identified and market conditions and may include equity/quasi-equity in addition to loans, as well as the possibility for disbursements in different currencies. In addition to this the Bank will continue to provide direct financing to larger projects considered to be financially viable and of economic priority to Jamaica. The exact size, timing and sectors for such interventions will be determined by when and where the need arises.

5.4 Complementarity with other donors

The proposed focal sectors, non-focal programme and budget support complement not only government's own development objectives, but also the EU Member States and other donor co-operation programmes. Interventions in support to the economic reform are in line with the United Kingdom, The Netherlands and Canadian debt relief and budget support operations, while the main

donors are active in private sector development, road sector and de-centralised co-operation, as shown in Annex 2. It is in the context of the SMP of the IMF that other donors provide direct budgetary aid and debt relief.

5.5 Coherence with other Community policies

The suggested strategy is fully compatible with other EC policies. As far as trade policies are concerned this relates to the effective participation of Jamaica in international trade fora and agreements, in particular WTO, by making full use of the available EC commercial policy instruments. At the bilateral level efforts are undertaken to promote the trade dimension in the national development policies. In this context Jamaica's active involvement in the preparation and negotiation of the Economic Partnership Agreement (EPA) under the CARICOM framework is foreseen. Support will be provided to strengthen the capacity of the Jamaican government in the field of international trade negotiations under the all ACP programme for capacity building in support of the preparation of the EPA. Jamaica reaffirms its commitment to the regional integration objectives of the Regional Support Strategy for the Caribbean and will play its role in ensuring that these be realised.

Wherever relevant EC policies/strategies concerning cross-cutting issues such as human rights and democratisation, gender and environment have been taken into consideration. This includes as well building strategic and operational links between related development aspects. In the case of Jamaica work has already been done to integrate disaster preparedness into management instruments. The issue of conflict prevention does not seem to be a matter of concern for EC co-operation in the foreseeable future. Synergies exist between the country support strategy and other relevant Community policies in the fields of communicable diseases, bio-diversity, sustainable development and information society.

Assistance will be provided for a number of sensitive industries, namely banana and rum. Support to the banana sector will continue during the period covered by the country support strategy, both through the preferential access to EU markets (Lomé trade preferences and Protocols will continue to be in force at least until 2008) and through the budget line "Special Framework of Assistance" to increase competitiveness of the banana industry and to facilitate diversification. Furthermore, under the 8th EDF regional programme significant support will be granted to the Jamaican rum industry with a view to fostering competitiveness. In addition, through Commission budget lines, funding continues to be available mainly for environmental, democratisation and human rights projects. The Centre for the Development of Enterprise (CDE) will continue to support the development of private sector through ad hoc interventions at enterprise level.

PART B

INDICATIVE PROGRAMME

6 The National Indicative Programme

6.1 Introduction

Within the general framework of the present CSP, the Parties have agreed on the main priorities for their co-operation (see chapter 5) and the sectors on which the support of the Community will be concentrated. A detailed Indicative Programme is presented in the following chapter. It is based on the resources of the A allocation and, subject to the outcome of the mid-term review and emerging needs as covered by the relevant regulations, the B-allocation.

Amounts mentioned in this chapter indicate the global repartition of funds between the focal sectors, macro-economic support and other programmes. This repartition may be modified in the context of operational, performance or ad hoc reviews.

6.2 Financing instruments

The implementation of the response strategy of the EC will be financed through a number of financing instruments. The following allocations are foreseen on an indicative basis:

1. 9th EDF, A-allocation (73 M€): This allocation is destined to cover the long-term development activities identified in the context of the response strategy. The following programmes have been identified under the A-allocation on an indicative basis:

- Private sector development (20-27%)
- Sector-based approach for road transport (30-38%)
- Macro-economic support (35-43%)
- Non-focal programme of decentralised co-operation and institutional strengthening (5-10%)

2. 9th EDF, B-allocation (27 M€): This allocation is destined to cover unforeseen needs such as emergency assistance where support cannot be financed from the Community budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse affects of instability in export earnings.

3. Investment Facility: Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank (see

details in Part A, chapter 5.3). The Investment Facility does not form part of the Indicative Programme.

4. Centre for the Development of Enterprise (CDE): Support for Jamaican enterprises in the field of non-financial services to the private sector is available through CDE.

5. Budget lines of the Community: Specific activities may be supported through the various Community budget lines, including, inter alia, NGO co-financing, decentralised co-operation, European Initiative for Democracy and Human Rights, food security and disaster prevention. Humanitarian and emergency assistance shall be accorded to the Jamaican population concerned in case of serious economic and social difficulties resulting from natural disasters or man-made crises. Approval of proposals and implementation of support measures under the available budget lines will be decided in accordance with the procedures in place for each respective financing instrument and are subject to the availability of funds.

6.3 Macro-economic support

The Community will support the macro-economic reform programme of the government. Special attention shall be given to the objective of poverty reduction, particularly with a view to ensuring equitable access to social services. Macro-economic support shall be delivered under a three-year programme. Funds shall be disbursed on an annual basis. If an annual disbursement is not executed within the time limits foreseen, the corresponding amount may be transferred to one of the other sectors of co-operation identified in the Indicative Programme. Such a decision can be taken in the context of the annual reviews.

For indicative purposes, approximately 30 M€ shall be reserved for this type of support.

6.4 Focal sectors

6.4.1 Private Sector Development

The specific objective is to improve the competitiveness of the private sector.

For indicative purposes, approximately 20 M€ shall be reserved for this sector.

The major interventions foreseen are business support services aiming at sector policy formulation and updating, improving the legislative and regulatory environment for private business, strengthening the capacity of representative private sector organisations, provision of comprehensive assistance to individual companies on improving the efficiency of their operations (e.g. business plans, loan applications, introduction of IT restructuring debts, product design, technology, organisation of production, manpower development, marketing approach), guidance on and training in standardisation and certification requirements. The programme components will be developed through and implemented in a cluster approach, thereby inter-linking all relevant partners, i.e. business, government departments, banks, private sector organisations and addressing their respective needs/constraints in a comprehensive and inter-related manner.

The major policy measures to be taken by the government as a contribution to the implementation of the response strategy in this sector concern the continuation of the macro-economic stabilisation programme, efforts to reduce administrative barriers for private sector activities, simplify investment incentives and effectively fight organised crime.

6.4.2 Road Transport Development

The specific objective is to improve the quality of the road network in Jamaica.

For indicative purposes, approximately 30 M€ shall be reserved for this sector.

The major interventions foreseen are divided into three components: (i) technical assistance to support the formulation, adaptation, adoption and implementation of a road sector policy and strategy, (ii) technical assistance and training for building capacity in the central and local government departments in charge of road maintenance as well as the National Works Agency in the implementation of a comprehensive road maintenance programme, and (iii) provision of road maintenance funds. The financial support for road maintenance could be directly to a Road Fund should such mechanism be adopted, or on a section-by-section basis within a road maintenance programme. Funds could be disbursed to a Road Fund on an annual basis subject to satisfactory technical and financial auditing of the Fund.

The sequencing of the appraisal of the extent of financial support could commence when there is (a) key stakeholder agreement on the national roads strategy (government, key private and public stakeholders and donors supporting transport) and (b) the key steps for implementation of the strategy are sufficiently advanced to secure mechanisms for sustainable financing and management of road maintenance.

6.5 Other programmes

An indicative amount of 10 M€ has been reserved for the following purposes:

- Community-based initiatives focusing on poverty alleviation: The specific objective is to boost community empowerment and improve community services. Major interventions are the establishment of a micro-projects facility to be implemented at local level in a decentralised manner, capacity building measures to strengthen project planning and management at community level and studies for regular impact assessment and monitoring of programme implementation.
- Institutional strengthening of Jamaican organisations needed for an efficient implementation of the Indicative Programme: The specific objective is to improve programme performance in terms of both qualitative (e.g. sustainability, etc) and quantitative (commitment and disbursement rates) criteria. Major interventions concern technical assistance for capacity building and system development measures.

6.6 Intervention framework

Macro economic support

	Performance indicators	Sources of verification	Assumptions
Long term national sector targets: <ul style="list-style-type: none"> Real economic growth, Low inflation Competitive exchange rates Appropriate interest rates Improving access to social services and a social safety net for the poor. 	<ul style="list-style-type: none"> Growth in GDP Inflation rate Exchange rate Poverty and income distribution 	Statin: national accounts statistics; Bank of Jamaica: exchange rate statistics; PIOJ: Survey of living conditions	
Intervention objective <ul style="list-style-type: none"> Strengthening government's capacity to effectively implement over the medium term a growth-oriented and poverty-focused macro-economic policy under conditions of continuing fiscal constraints 	<ul style="list-style-type: none"> Primary fiscal balance, total and % of GDP 	Ministry of Finance	Continued government commitment to pursuing macro economic reform, fiscal restraint, debt reduction and structural economic reforms
Results <ul style="list-style-type: none"> External and internal debt reduced Key social services sufficiently funded Good governance-related expenditures effectively realised 	<ul style="list-style-type: none"> Total debt and debt as % of GDP Total government expenditure on education, health and social safety net programmes; Expenditure on education at least 10.8% of overall budget expenditure over 2002-2004 Primary school enrolment of 100% over 2002-2004; 2 % annual increase in number of grade 11 students passing English and Mathematics in the CXC over 2002-2004; By 2004 university enrolment increased at 15 %; Expenditure on total/primary health care as % of total GDP/expenditure on health; Numbers of children reached with basic vaccination; Total fertility rate 2.6 children per woman in 2003 Incidence of preventable diseases; Poverty rate down to 13% in 2004; Number of families reached in rural/urban areas and total subsidies provided. Expenditure on law enforcement agencies and the judiciary as % of total expenditure; Average duration of criminal court cases reduced to x-days by 2004; Crime and homicide rate reduced by x-%; Unlawful security force actions reduced by x-%. 	Ministry of Finance: Annual budgets and actual expenditure reviews; Ministry of Health: health statistics; Ministry of Education: education statistics; Ministry of Labour and Social Security on social welfare programmes and information on number of programmes; Ministry of Justice	Government succeeds in attracting sufficient donor support for debt reduction and budget support; Complementary technical assistance in the fields of debt and public expenditure management available; Adequate financial management practices in place; Absence of major external shocks such as natural disasters.

Private sector development

	Performance indicators	Sources of verification	Assumptions
Long term national sector targets: Increase in production for export and domestic markets and creation of employment.	<ul style="list-style-type: none"> Increased non-traditional exports of goods and services Increase in number of exporting companies (goods and services) Investment growth; Employment 	Statin: National accounts statistics Export statistics Labour force surveys Bank of Jamaica (BOJ): Services balance	
Intervention objective Improving the competitiveness of SMEs;	Output/export performance of SMEs.	PMU reports	Continued government commitment to macro economic and structural reforms; Exchange rate policy conducive for maintaining competitiveness; Simplification of investment incentive system and reduction in administrative barriers for SMEs; Reform in labour legislation; Stable industrial relations
Results <ul style="list-style-type: none"> SME policy updated Business services improved Access to business services improved Access to financial institutions facilitated Capacity of financial institutions strengthened Management capacity in SMEs strengthened 	<ul style="list-style-type: none"> Number of firms/institutions supported by type of support service provided by size; Production/export/employment increase of supported companies. Number of SMEs receiving loans from financial institutions Loan default rate of SMEs by size Improvement of services available to the private sector for strengthening competitiveness Number of financial institutions assisted; Bank staff trained 	PMU reports	Sufficient funding available for SME financing through financial markets/banking system; Affordable interest rates for SME

Sector based approach for road transport development

	Performance indicators	Sources of verification	Assumptions
Long term national sector targets: Economic growth and poverty reduction through better access, facilitating increased production and access to social services	<ul style="list-style-type: none"> • GDP; • Value added in agriculture; • Value added in transport; • Employment in rural areas. • Consumption in rural areas. 	Statistics: - National accounts statistics - Labour force surveys PIOJ: Survey of Living Conditions.	
Intervention objective Improving the quality of the road network in rural areas.	Road quality indicators	Ministry of Transport/ Works Agency.	
Results <ul style="list-style-type: none"> • Road maintenance strategy and investment plan formulated; • Road maintenance capacity at Works Agency and parishes strengthened • Financing of road maintenance activities secured in a sustainable manner 	<ul style="list-style-type: none"> • Road maintenance management system adopted • Number of staff trained • Financial management, audit and procurement procedures in place • Funding mechanisms in place; • Length of roads for which maintenance has been carried out. 	Ministry of Transports/Works Agency.	GOJ adopts a road maintenance strategy and provide sufficient financing in the context of a medium term public sector investment plan; Authorities follow strictly financial management, auditing and procurement procedures; Co-ordination with other development co-operation partners is achieved.

Non-focal programme: support for decentralised programme implementation

	Performance indicators	Sources of verification	Assumptions
Long term national sector targets: Economic growth and poverty alleviation through community empowerment	Poverty indicators. Use of social services at community level.	PIOJ, Survey of Living Conditions	
Intervention objective Improve community empowerment and strengthen social capital in communities.	Number of functioning CBOs Membership of CBOs.	PMU	
Results <ul style="list-style-type: none"> • Institutional capacity and sustainability of CBOs improved; • Quality of services provided by CBOs improved • Living conditions in communities improved. 	<ul style="list-style-type: none"> • Staff trained • Studies conducted • Empowerment indicators; • Services accessed through CBOs in communities 	PMU	Accountable financial management introduced; CBOs can effectively contribute to empowerment and the building of social capital.

Quantitative performance targets and other indicators against which progress may be measured will be developed in further detail and agreed upon between the European Commission and the government of Jamaica in the corresponding financing proposals under the respective programmes.

6.7 Chronogramme of activities, 2001 - 2006

Titles	Amounts	Identification	Appraisal	Financing decision
Macro economic support	30	January 2002	July 2002	October 2002
Private sector development	20	January 2002	July 2002	October 2002
Sector Based Approach: road transport	30			
(i) TA for road sector policy		January 2002	March 2002	July 2002
(ii) TA for capacity building		January 2003	July 2003	October 2003
(iii) Fund for maintenance		January 2003	July 2003	October 2003
Programme in support of decentralised co-operation and institutional strengthening	10	January 2002	October 2002	December 2002

6.8 Indicative commitments timetable, 2001 - 2006

Table A.1 Commitments time table (million €)

Jamaica	Indicative Total	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
EDF co-operation programmes										
Private sector development ⁽¹⁾	20	20								
Transport	30 ⁽²⁾	0.75		29.25						
Total	50	50								
EDF instruments										
Structural adjustment support	30	30			30 ⁽⁵⁾					
Total	30	30								
Non-focal programme ⁽³⁾	10	10								
Grand total A allocation	90 ⁽⁴⁾	90								

1) excluding EIB-administered investment facility

2) includes technical assistance of € 5 million,.

3) excludes EC budget lines.

4) total includes over-programming of 20%.

5) envelope B: indicative amount of up to € 30 million

6.9 Indicative disbursements timetable, 2001 - 2006

Table A.2 Payments time table (million €)

Jamaica	Indicative Total	2002/ 2	2003/ 1	2003/ 2	2004/ 1	2004/ 2	2005/ 1	2005/ 2	2006/ 1	2006/ 2
EDF co-operation programmes										
Private sector development	20		1	1.5	3	3	3	3	3	2.5
Transport	30	0.5	0.25		10		10		9.25	
Total	50		6	6.5	8	8	8	8	3	2.5
EDF instruments										
Structural adjustment support	30	15		15		(30) ⁽¹⁾				
Total	30	15		15						
Non-focal programme	10		1	2	2	1	1	1	1	1
Grand total A allocation	90	15	7	23.5	10	9 (30)⁽¹⁾	9	9	4	3.5

(1) Envelope B

ANNEXES

ANNEX 1: EC CO-OPERATION WITH JAMAICA

ANNEX 2: DONOR MATRIX

ANNEX 3: ASSESSMENT OF MACRO-ECONOMIC DEVELOPMENT

ANNEX 4: ASSESSMENT OF PRIVATE SECTOR DEVELOPMENT

ANNEX 5: ASSESSMENT OF ROAD TRANSPORT DEVELOPMENT

ANNEX 1: EC CO-OPERATION

WITH JAMAICA

	Grants	Loans	Total	Completion
I – Active Projects under Lome Convention	(EURO million)			Year
Poverty Alleviation				
Rural Water Supply II	10,07			2003
Eastern Jamaica Agricultural Support Programme	8,23			2004
Micro and Small Enterprises Credit Scheme	0,90	6,10		2001
Poverty Reduction Programme	6,08			2004
Support to Economic Reform Programme	34,18			2003
(*) <i>Support to the Economic Reform Programme II</i>	28,30			2002
Infrastructures				
Negril-Ochos Rios Wastewater Project	15,00	25,00		2001
Road Rehabilitation Programme	16,58			2001
Northern Coastal Highway	80,21			2006
Study to Secure Finance for Road Maintenance	0,15			2001
Negril Stabilisation Ponds Study	0,15			2001
Trade Promotion & Investment				
Trade Development Programme	6,00			2003
Miscellaneous				
Return & Reintegration Qualified Nationals	1,65			2000
Public Sector Modernisation Project	2,03			2002
Institutional Strengthening PIOJ	0,44			2003
Drugs Demand Reduction Programme	1,20			2003
Total I – APPROVED	182,86	31,10	213,96	
(*) Total I – PIPELINE	28,30		28,30	
II – EIB Active Loans (own resources & risk capital)				
National Development Bank Credit Lines		41,59		L
Trafalgar Development Bank Credit Lines		6,94		O
Port & Freezone of Montego Bay		9,59		N
Kingston Container Terminal I & II & III		71,00		G
Telecommunications of Jamaica (Cable & Wireless)		40,00		
Jamaica Public Service Co - Power Supply		6,66		T
JBM Alumina & Jamaica Caustic Soda Plant		3,38		E
Total II – APPROVED		179,15	179,15	R
(*) Total II – PIPELINE		0,00	0,00	M
III - Active Projects under EC Budget Lines				
NGO Support	1,09			
Campaign Against Drug Abuse	0,08			S
Environment	0,90			H
Tropical Forests	0,42			O
Decentralised Co-operation	0,15			R
Human Rights	0,20			T
Humanitarian Assistance	0,81			
(*) <i>Humanitarian Assistance</i>	0,40			
Banana Support Programme 1996-98	10,82			T
Banana Support Programme 1999	5,30			E
(*) <i>Banana Support Programme 2000</i>	5,30			R
Gender Issues	0,37			M
Total III	20,14		20,14	
(*) Total III – PIPELINE	5,70	0,00	5,70	
Total Cooperation at Jan-01	203,00	210,25	413,25	
(*) Total Pipeline at Jan-01	34,00	0,00	34,00	

NOTES: Regional Co-operation is not included. Pipeline projects are at the identification stage or awaiting approval.

NATIONAL INDICATIVE PROGRAMME			
			(EUR)
EDF	EUROPEAN COMMISSION	EUROPEAN INVESTMENT BANK	TOTAL
6th EDF	2.388.591	-	2.388.591
7th EDF	7.268.762	669.724	7.938.486
8th EDF	25.811.885	9.268.344	35.080.229
TOTAL	35.469.238	9.938.068	45.407.306

REGIONAL INDICATIVE PROGRAMME			
(programmes led by the EC Delegation in Jamaica)			
			(EUR)
EDF	EUROPEAN COMMISSION	EUROPEAN INVESTMENT BANK	TOTAL
6th EDF	246.957	-	246.957
7th EDF	5.824.193	2.010.156	7.834.349
8th EDF	286.858	-	286.858
TOTAL	6.358.008	2.010.156	8.368.164

REGIONAL INDICATIVE PROGRAMME			
(local expenditure for programmes not led by the EC Delegation in Jamaica)			
			(EUR)
EDF	EUROPEAN COMMISSION	EUROPEAN INVESTMENT BANK	TOTAL
6th EDF	0	0	0
7th EDF	328.094	0	328.094
8th EDF	0	0	0
TOTAL	328.094	0	328.094

EUROPEAN COMMISSION BUDGET		
		(EUR)
BUDGET LINE	SUBJECT	TOTAL
B7-2190	Humanitarian Assistance (ECHO)	-
B7-5023	Banana Support Programme	3.806.500
B7-6000	Non-Governmental Organisations	-
B7-6200	Environment	-
B7-6201	Tropical Forests	-
B7-6430	Decentralised Co-operation	-
B7-7020	Human Rights & Democratisation	-
TOTAL		3.806.500

TOTAL	57.581.970
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ANNEX 2: DONOR MATRIX

National Development Strategy				
	<i>Economic Development</i>	<i>Social Development</i>	<i>Productivity sector activity</i>	<i>Thematic/cross cutting issues</i>
Donor/Lender				
European Union	-micro enterprises and SME development -trade development -economic reform -regional integration	-water and sanitation -health services provision --drugs -education (including EDF regional co-operation in tertiary education)	-Highway construction/maintenance -Agriculture sector production and productivity -rural roads construction -ports, utilities (EIB)	-public sector modernisation -poverty reduction -strengthening of civil society -environment -human resource development
Germany		-health services provision -skills training -AIDS/STD prevention	-hydro-energy	
Spain		Tertiary education		
Sweden (SIDA)			-standards enhancement -road traffic improvement	-environmental policy/sustainability
United Kingdom (DFID)	-enterprise development -debt relief	-primary & secondary education -social policy reform		-public sector modernisation -improving citizen security/penal reform -poverty reduction/community participation
World Bank	- Financial sector reform - Competitive laws and competition -Tax administration -Export development	-secondary and tertiary education -HIV/AIDS prevention		-Social safety net -poverty reduction -public sector modernisation

Inter-American Development Bank	-Financial Sector reform -Privatisation of airport -Trade Liberalisation -Microenterprises, SMEs development -Information Technology	-water and sanitation reform and provision -sewerage -primary education -health sector reform -AIDS prevention and treatment	-Agricultural production and productivity -Highway construction -Standards enhancement -Land management	-Citizen security/justice system -Social safety net/poverty reduction -Public sector modernisation -Local government reform -Environmental policy reform/sustainability
Caribbean Development Bank	-Financial Sector reform -private sector investment/development	-Basic education -Tertiary education -water provision	-Agricultural production and productivity -Rural electrification -technology development/transfer -maritime sector reform/strengthening	-Social safety net/poverty reduction
United Nations Development Programme	-Microenterprises, SMEs development -Competition Laws and competitiveness	- Skills Training	Information Technology	-Public sector modernisation -Governance/Local Government Reform -Environmental Policy reform -Watershed Management -poverty reduction
Pan American Health Organisation		-Health Sector reform		
United Nations Children's Emergency Fund (UNICEF)		-Primary Education -Early Childhood development -HIV/AIDS -Adolescent Development and Participation -Strengthening social sector data collection		-Family Community Capacity development -Juvenile Justice -Legal reform -Advocacy and social mobilisation -public policies reform
Organisation of American States (OAS)	-Trade promotion	Tertiary level training	Science and Technology	-poverty reduction -environmental sustainability -human resource development -civil society participation -decentralisation

United Nations Population Fund (UNFPA)		-HIV/AIDS -Reproductive health		
Food and Agriculture Organisation (FAO)			-agricultural production and productivity	
United Nations Scientific and Cultural Organisation (UNESCO)		Education for all		Strengthening of civil society Promotion of cultural values
Canadian International Development Agency (CIDA)	-Microenterprises, SMEs development -Human Resources development for economic competitiveness	-Basic Education -HIV/AIDS -Early Childhood Education	-Standards enhancement -Development of new technologies -- telecommunications	-Justice system and Governance -Strengthening of Civil Society Policy -Environmental reform/sustainability -Watershed Management -Local Government Reform -public sector modernisation (information technology) -poverty reduction
Japan		-Primary health care provision -water and sanitation reform -skills training	-Highway construction	
USAID	-Microenterprises and SMEs development -reduction of administrative barriers to investment	-skills training -primary education -health services provision -AIDS/STD prevention&control		-Citizen Security and Governance -Environmental policy reform & sustainability
China		-water systems rehabilitation and expansion		
Kuwaiti Fund for Economic Development (KFED)			-Highway construction -road rehabilitation and maintenance	

ANNEX 3: ASSESSMENT OF MACRO-ECONOMIC DEVELOPMENT

Recent Economic Performance

By end-1999, the Jamaican economy and society had completed a decade of significant economic restructuring. Some progress has been made in stabilising and structurally adjusting the economy. After recording an annual average real GDP growth rate of 1.2% for the first half of the 1990s, there has been a decline in real GDP growth between 1996 and 1999. Since 1997, the rate of decline in real GDP has slowed somewhat from -2.0% (1997) to -0.4% (1999).

Economic reforms introduced in the early 1990s have generated both positive and negative macro-economic results. On the positive side, there was a sharp improvement in the fiscal position with central government moving to a fiscal surplus in the early 1990s up to 1995, following large deficits during the 1980s. There was also an improvement in the external position as net international reserves became positive after 1993 and external debt service ratios trended downwards. Inflation, which averaged 39% per annum between 1990 and 1995, has also trended downwards, averaging single digits annually since 1997.

Declining real GDP between 1996 and 1999 resulted primarily from serious problems in the financial services sector, the effects of a severe island-wide drought in 1997 and 1998, and reduced economic activity in the textile and apparel sub-sectors.

Financial sector liberalisation was undertaken without adequate preparation in terms of the prudential and regulatory infrastructure. As a result, many existing and newly established financial institutions operated freely without being subjected to the necessary rigorous monitoring and regulatory systems. Many of these institutions engaged in poor management practices, including massive lending to connected parties. Not unexpectedly, the financial sector experienced serious problems between 1995 and 1998, reflected in a decline in its contribution to real GDP. government intervention to restructure the sector is estimated at 44% of GDP (by mid 2000).

Recent Sector Performance

The **agricultural sector** contributed, on average, 7.7% of total GDP during 1995 to 1999. Following positive real GDP growth between 1990 and 1996, the agricultural sector experienced a downturn in 1997 when it declined by 14.6%. This decline resulted from a severe island wide drought, which caused domestic agricultural production to fall by 20.1% and export agriculture by 11.5%. Both domestic and export agricultural production decreased again in 1998 due to the continued effects of the drought. In 1999, agriculture showed positive real GDP growth due mainly to increased sugar cane production. Major issues to be addressed are increasing the competitiveness of the sugar and banana industries, reducing costs in coffee production, expanding non-traditional crops and improving the efficiency of Jamaica's small farmers.

The predominant **mining** activity in Jamaica is bauxite mining and alumina production, representing the most significant component of the export sector. Real GDP growth in the sector averaged 1.2% per annum between 1995 and 1999, with its contribution to total GDP rising from 8.5% in 1995 to 10% in 1999. Real output in the sector declined by 6.8% in 1999 mainly due to falling crude bauxite exports. Declining exports resulted from the closure of the Kaiser Gramercy

alumina refinery in USA, which processed about two-thirds of Jamaica's bauxite exports. Foreign exchange earnings in the sector averaged US\$703 million per annum during 1995 to 1999, with alumina earnings accounting for over three-quarters of total. In mid-1998, the government, the bauxite and alumina companies and the trade unions signed a Memorandum of Understanding (MOU), which was expected, inter alia, to improve industrial relations in the sector, reduce operating costs, increase productivity levels and modernise and expand plant capacities.

During the second half of the 1990s, the **manufacturing sector** contributed an annual average of 17.6% to total GDP. Real manufacturing GDP, however, declined during the period mainly due to reduced output levels in the textile and apparel sub-sectors. The decline in manufacturing has been due to a number of factors: (i) increasing competition from imports on the local market due to liberalisation, (ii) reduction in export competitiveness due to an appreciating real effective exchange rate, especially after the mid-1990s, (iii) increasing cost of capital due to the high interest rate policy of the government, (iv) a cumbersome system of approvals, (v) increasing cost of labour, and (vi) increasing costs of utilities and security. The effect of increasing competition from imports was perhaps felt most strongly during the first half of the 1990s. In the second half of the 1990s, increases in domestic costs became more important and also affected labour-intensive industries and resulted in declining production and exports. In order to meet higher domestic costs, investments needed to be made in higher value added activities. This pattern of industrial restructuring is more difficult to achieve, especially given the country's comparative advantage in labour intensive industries.

The **construction sector** contributed, on average, 8.8% annually during 1995-1999. Since 1995, real construction sector GDP has fallen by about 4% per year. Among the factors contributing to the sector's poor performance are the combined effects of the high costs of capital and tight credit along with lagging implementation of new capital projects. High real estate prices and costly mortgage financing have reduced the demand for private housing and commercial units, negatively affecting output demand in the sector. In addition, the sluggish performance of the macro-economy has also adversely affected the performance of the sector.

The **energy sector** contributed an annual average of 5.1% to total GDP during the second half of the 1990s. Between 1995 and 1999, real energy GDP rose by 5% annually. Nearly all (96%) of the country's energy requirements are met by imported oil mainly from Venezuela, Netherlands Antilles and USA. Increases in international oil prices impact significantly on domestic costs of production in many sectors of this oil import dependent economy. Recently JPSCo has been privatised with the sale of a majority share (80%) to Southern Energy from the US. In the water sector private involvement is still in its infancy. The water distribution system is managed and operated by the National Water Commission. Private investment opportunities are, however, being opened up in selected water supply projects through BOOT arrangements. A main issue is the development of water supply facilities in rural areas.

Transport, Storage and Communication increased its contribution to total GDP from 12.3% (1995) to 16.9% (1999). Real transport GDP has averaged 7.7% growth annually during the corresponding period. Much of this growth has resulted from increased public buses in urban and rural areas and a growing number of private taxis throughout the island. Economic activity in the communications sector has intensified mainly due to technological advances in telecommunications

which have led to increasing telephone traffic, an upsurge in the use of Internet Service Providers (ISPs) and growing usage of Electronic commerce (e-commerce). In the maritime shipping industry, the port of Kingston has become an important transshipment port. Transshipment turnover has increased by 75% between 1995 and 1999, reaching 7 million tons. Further expansion is envisaged. It is planned to lease the operation of the ports to a private operator. The two international airports are scheduled for privatisation. The privatisation of Sangster's International Airport (at Montego Bay) is underway. However, the favoured treatment of Air Jamaica is an obstacle to the privatisation of this airport. Norman Manley International (at Kingston) is expected to be privatised after the completion of privatisation of Sangster's International Airport. Despite stagnating economic growth, land transportation has increased significantly during the 1990s putting an increasing burden on the road network. Improvements in this network are needed to facilitate efficient transport at reasonable costs. Road maintenance needs to be addressed through improved systems and adequate funding.

Tourism is the leading sector in terms of gross foreign earnings and generates a significant amount of direct and indirect employment. Its contribution to total GDP has remained fairly stable during the 1990s. Real tourism GDP increased by an annual average of 2.9% between 1995 and 1999. During this period, both stopover and cruise ship visitor arrivals increased, with the latter growing at about 6% per annum. Gross foreign exchange earnings increased from US\$1.07 billion (1995) to US\$1.23 billion (1999). Hotel occupancy rates have remained fairly stable at an annual average of 58% during the last five years. The performance of the sector is affected by a range of factors including economic conditions in the major markets especially USA, availability of flights to and from the island, visitor perception of the country's crime rate and related risk factors, and reported tourist harassment by vendors of commodities and services.

The **distributive trade sector** accounted for an annual average of just over 20% of total GDP during the second half of the 1990s. The real GDP growth of the sector has fallen since 1995, becoming negative in 1998 and 1999. This can be explained, in part, by the effects of the macro-economic slowdown especially declining consumer credit as well as structural changes in the sector arising out of increasing levels of competition.

The **labour force** was reduced somewhat from 1.150 million in 1995 to 1.119 million in 1999. Unemployment rates have also showed a slightly downward trend from 16.2% (1995) to 15.7% (1999). Labour force participation rates have fallen slightly from 68% (1995) to 64.5% (1999). Of significance is the female unemployment rate which is generally more than double that of males. There is a growing informalisation of the labour market as evidenced by increases in demand for self-employed, part-time, contract and low skilled workers. The available data indicates that women have benefited more than men as a result of this shift. Wage levels have generally trended upwards reflecting, in part, the bargaining strength of trade unions. However, a major conflict has arisen in recent years between the trade unions and employers over employment practices as a growing number of businesses have been employing more part time and contract workers in an effort to reduce their labour costs.

Public Finance

In nominal terms, government revenue has increased during the 1990s from J\$58.6 billion (1995/96) to J\$90.4 billion (1999/2000). Simultaneously, government revenue/GDP ratios have

remained fairly stable at a yearly average of about 30% between 1995 and 1999. Government revenue growth resulted mainly from increased tax rates in some areas, improved tax revenue collection, and divestment of government owned assets. Government expenditure grew from J\$ 54.8 billion (FY 1995/1996) to J\$102.9 (FY 1999/2000). These increases have resulted mainly from government expenditure on restructuring the financial sector, higher domestic interest payments associated with the increase in debt and increases in expenditure on public sector wages and salaries between 1995 and 1998. Since 1998/99 debt servicing has accounted for over 50% of government expenditure with interest payments accounting for over 25%. Following seven consecutive years of fiscal surpluses, the fiscal accounts showed annual deficits beginning FY1996/1997. These deficits have averaged 6.7% of GDP, since then. The fiscal deficits have resulted primarily from although government revenues have been adversely affected by declining macroeconomic performance, the fiscal deficit has showed a downward trend over the last three years.

Public sector debt

Central government domestic debt was J\$175.8 billion or 68.4% of GDP at end-1999, compared with J\$59.5 billion or 34.5% of GDP at end-1995. This debt has almost trebled since 1995. Increasing central government domestic debt has been incurred to provide budgetary support for government, to assist the Central Bank in its liquidity management policies, to cover Central Bank losses, to assume debt obligations of public sector entities and to provide liquidity support to commercial banks experiencing liquidity problems. As a government policy decision, public sector external debt was reduced during the 1990s. At end-December 1999, public external debt was about US\$3.0 billion or 46.3% of GDP compared with US\$3.5 billion or 71.3% of GDP in 1995. The most significant portion of this debt is US dollar denominated accounting for around 60% of total (1999). Bilateral and multilateral external debts constitute the largest portion of this debt, accounting for 79.2% as at end-1999. Bilateral obligations were the largest segment of external debt accounting for 45% of total (end-1999). Total public debt/GDP ratios have increased over the last five years, since 1995. However, while the external debt/GDP ratios have declined, domestic debt/GDP ratios have risen from 37.9% (1996) to 68.4% (1999).

Financial sector

The rapid expansion of the financial sector occurred under conditions of weak prudential regulation and supervision by the relevant authorities. In addition, many problems emerged in the financial sector as evidenced by capital shortages and impaired asset quality in many financial institutions. These problems arose mainly as a result of weak management practices including non-arms length dealing and the growth of financial sector conglomerates involved in regulatory arbitrage. Problems in the sector were exacerbated by the significant reduction in inflation, which affected loan portfolios through the prices of assets used as collateral. Since 1993, the Minister of Finance, using the relevant laws, has placed 12 financial institutions under temporary management and intervened in 10 financial conglomerates, which included commercial banks, insurance companies and non-core businesses.

The government established the Financial Sector Adjustment Company (FINSAC) in 1997 to help in the rehabilitation of those financial institutions facing liquidity and solvency problems and to provide protection for depositors in these institutions. FINSAC's assistance has included assuming deposit and other liabilities, providing liquidity support, purchasing ordinary and preference shares, acquiring non-performing loans and provisioning subordinated debt. As of August 2000, FINSAC

debt, which can be used as a proxy for the cost of the financial sector crisis, was J\$127.9 billion or 44% of current GDP. However, about J\$50 billion represents FINSAC securities held by the Central Bank, the Ministry of Finance and Planning and other government agencies. Government has recently agreed to cancel this debt. In addition, FINSAC continues an active programme of divesting a number of assets, which it acquired in connection with its intervention in the financial sector. As of fiscal year 2001/02 FINSAC's debt will be taken on the government's budget.

External environment

As a small, open economy Jamaica's balance of payments is heavily dependent on developments in the international economy as well as domestic economic policies and programmes. The current account balance has showed deficits for the last five years, with a slightly downward trend since 1996. The goods balance has remained negative with export receipts declining, but outweighing the decline in import revenues. In recent years, export receipts have decreased primarily as a result of declining prices of the major export commodities, contraction of the export apparel sector and more recently, lower demand for bauxite exports. Although merchandise imports have declined somewhat in recent years reflecting reduced import values for capital and intermediate goods and raw materials, this decline has been partially offset by increases in the values of fuel imports due to increasing international oil prices. Although the current account balance has remained negative for an extended period, the service balance has been positive since 1995, reflecting higher net travel flows. Net transfers have risen consistently over the decade mainly due to increasing levels of remittances by Jamaicans abroad. Net International reserves of the Central Bank have averaged US\$ 537 million or 12.3 weeks of merchandise imports annually between 1995 and 1999. In terms of foreign trade activity, USA, UK and Canada have remained Jamaica's main trading partners, while trade with the EU has declined slightly during the 1990s. Jamaica's trade with its regional partners in CARICOM remains fairly insignificant with its balance of visible trade with CARICOM being negative for the last five years.

Macro-economic reforms

Beginning in the early 1990s, government began to accelerate the process of liberalisation of the economy to allow for the free inter play of market forces. This strategy was expected to lead to increasing levels of economic efficiency and stimulate domestic economic growth.

The main reforms were related to:

- ▲ foreign trade activities, mainly import liberalisation
- ▲ domestic financial sector liberalisation
- ▲ capital account liberalisation
- ▲ privatisation of government owned enterprises.
- ▲ tax reforms.

Although the privatisation programme began in the early 1980s, the pace of divestment of government owned assets accelerated in the 1990s. By 1996, 66 government-owned entities had been divested generating US\$431 million. These included enterprises in tourism, banking and finance, manufacturing, agri-business, transport and communications. Following the financial sector problems in the mid 1990s, there was a reversal of the privatisation policy resulting mainly from expediency. Government responded to the problems in the sector by intervening through ownership of financial and non-financial entities owned by the failed institutions.

Tax reform policies were initiated in the late 1980s with the implementation of a flat rate tax for individuals and a uniform standards deduction level. Income tax thresholds have also been revised during the period. In 1991, the General Consumption Tax (GCT) replaced a complicated structure of indirect taxes. The GCT was applied to most domestically produced goods as well as imported commodities, except for a few which was tax exempt. In 1994, a Tax Reform Administration Project was implemented with the objective of broadening the tax base, promoting voluntary compliance with the tax laws, improving tax collection, and controlling tax evasion. In 1996, a Tax Compliance Programme targeting improvements in tax administration and compliance was introduced. Under this Programme and to broaden the tax base, a Tax Registration Number (TRN) was instituted whereby individuals and businesses were assigned unique identification numbers. These tax reforms have been generally successful in improving tax collections as evidenced by increasing tax collection ratios. These reforms have also considerably broadened the tax net.

Among the latest positive macro-economic developments the following can be mentioned: the containment of the inflation rate (down from 8.4% to 6.4% during the fiscal year); decline in unemployment by 0.2% to 15.5%; the record Net International Reserves, amounting to USD 1.3 billion or more than 24 weeks of imports; the consistent declining trend of the 30-day repo interest rate from 17.3% to 15.5% in fiscal year 2000/01, although not enough to meet the Staff Monitored Programme target; GDP growth of 0.8% in real terms, which constitutes the first year of positive GDP evolution since 1995; the generally-positive Art. IV Report of the IMF and the positive progress in the implementation of the Staff Monitored Programme; the good credit rating and the flawless track record of debt repayment; the controlled depreciation of the JMD exchange rate versus USD and its stability versus EUR.

Table
Selected Economic Indicators

	1995	1996	1997	1998	1999
	<i>(in millions of US\$, except where noted)</i>				
DOMESTIC SECTOR					
Nominal Gross Domestic Product (J\$ Millions).....	172,041.6	204,797.5	225,299.3	238,048.0	256,790.2
Nominal GDP (US\$ millions) ⁽¹⁾	4,840.8	5,532.1	6,332.2	6,489.9	6,529.1
% Change in Real GDP.....	0.7	(1.3)	(2.0)	(0.5)	(0.4)
GDP per capita (J\$/person)	69,145.8	81,414.2	88,683.1	92,896.8	99,488.7
Inflation					
Consumer Price Index (Percent Change).....	25.6	15.8	9.2	7.9	6.8
Interest Rates (Percent)					
Weighted Average Loan Rate	48.6	37.8	31.9	30.1	24.6
Weighted Average Deposit Rate	26.2	20.8	14.1	15.5	13.3
Treasury Bill Yield ⁽²⁾	42.5	28.8	28.1	23.5	22.0
Unemployment Rate (Percent) ⁽³⁾	16.2	16.0	16.5	15.5	15.7
EXTERNAL SECTOR					
Average Annual Nominal Exchange Rate					
(J\$/US\$).....	35.54	37.02	35.58	36.68	39.33
Export of Goods (f.o.b.).....					
Alumina	632.1	607.0	651.7	600.7	628.0
Sugar.....	96.0	109.2	101.9	94.6	88.5
Imports of Goods (f.o.b.).....	2,625.3	2,715.2	2,832.6	2,743.9	2,627.6
Goods Balance	(829.3)	(994.2)	(1,132.3)	(1,130.5)	(1,137.7)
Current Account Balance	(74.1)	(111.6)	(310.6)	(302.4)	(282.9)
Net Foreign Direct Investments.....	81.1	90.4	146.7	287.1	425.3
Overall Balance of Payments	19.7	278.6	(161.3)	39.3	(133.6)
Net International Reserves	421.3	692.6	540.5	582.0	450.2
Weeks of Coverage of Imports ⁽⁴⁾	12.4	15.5	11.3	11.9	10.5
PUBLIC FINANCE (J\$ millions)⁽⁵⁾					
Revenue and Grants	58,576.1	63,085.4	66,425.8	74,096.2	90,372.6
Expenditure	54,769.8	78,051.6	86,388.2	93,267.3	102,947.8
Fiscal Balance (Deficit).....	3,806.3	(14,966.1)	(19,962.4)	(19,171.4)	(12,575.2)
% of GDP	2.3	(6.7)	(8.3)	(7.3)	(4.3)
Loan Receipts.....	11,320.4	48,966.9	44,595.6	60,599.4	72,482.6
Amortisation	15,158.9	24,075.7	31,326.6	34,476.5	54,940.3
Overall Balance (Deficit)	(32.2)	194.1	(6,693.4)	6,951.8	5,737.2
Overall Public Sector Balance	6,194.5	(12,937.6)	(19,887.9)	(19,669.2)	(11,395.5)
Overall Public Sector Balance as a% of GDP	3.7	(5.8)	(8.2)	(7.5)	(3.9)
PUBLIC DEBT					
Central Government Domestic Debt (J\$ Millions)⁽⁶⁾.....					
% of GDP	34.6	37.9	45.0	50.4	68.4
Public Sector External Debt					
% of GDP	71.3	58.4	51.8	50.9	46.3
Total Public Sector Debt	4,946.1	5,450.1	6,047.5	6,534.5	7,267.6
% of GDP.....	102.2	98.5	95.5	100.7	111.3
External Debt Service Ratio.....	16.6	16.6	14.7	17.9	17.3
TOURISM					
Total Visitor Arrivals	1,752,179	1,820,627	1,903,893	1,898,977	2,012,738
Occupancy Rate (% Hotel Rooms).....	60.8	57.7	55.7	58.7	57.0
Visitor Expenditures ⁽⁷⁾	1,069.0	1,092.0	1,131.0	1,197.0	1,232.0

- (1) Calculated using the average annual exchange rate.
- (2) Tenors of Treasury Bills are approximately 182 days.
- (3) Includes all persons without jobs whether actively seeking employment or not.
- (4) Calculated on the basis of gross international reserves.
- (5) Fiscal year data from April 1 to March 31, for example 1995 refers to the period April 1, 1995 to March 31, 1996.
- (6) Does not include contingent liabilities in the form of guarantees of certain obligations of public entities. See "Public Sector Indebtedness — Domestic Debt".
- (7) Estimate.

Source: Bank of Jamaica, Statistical Institute of Jamaica, Ministry of Finance and Planning and Jamaica Tourist Board.

ANNEX 4: ASSESSMENT OF PRIVATE SECTOR DEVELOPMENT

The private sector is expected to be the main engine of growth in the coming years. A strategy of private sector development is an integral part of the National Industrial Policy of 1996. Traditionally, the government has stimulated private sector development by providing various types of incentives, including income tax holidays, and exemption of import duties and taxes. Over time a wide range of incentive schemes have developed and targeted different sectors or industries. Over the past decade, however, due to an adverse economic environment, the private sector has been slow to improve efficiency, competitiveness and in generating growth. Weak management and high cost of production linked to outdated equipment and machinery are therefore characteristic features of the Jamaica productive sector. The financial situation is expected to improve over time as the two new banks formed out of the banks taken over by FINSAC are being privatised and its FINSAC bonds being converted into cash interest bearing government stock. The increase in funding for credit will come out of bi-annual interest payment on this stock and principal repayments, as well as further reductions in the cash reserve ratio, as deposits are effectively tied up in government bonds. This implies that the increase in resources for credit to the private sector will be gradual.

In the meantime the government has tried to address the problem of limited credit and its high cost by introducing a concessional lending programme to facilitate investments for retooling and modernisation. This credit programme is managed by two publicly owned development banks, the Development Bank of Jamaica and the EX-IM Bank. The funds are retailed at 13% and 12% respectively. Firms have to seek qualification from the Ministry of Industry, Commerce and Technology to access the funds, which involves the submission of a modernisation plan. The funds managed by JDB are channelled through the commercial bank system. EX IM Bank retails its funds directly. This type of concessional lending is subject to a number of disadvantages:

- ▲ Lengthy restrictive procedures have had to be introduced to ration the funds;
- ▲ The amount of funding involved is limited so that only a small number of companies can be reached.
- ▲ Because of the narrow spreads allowed to the commercial banks and the risk involved, the funds are on-lent under very strict conditions regarding collateral.
- ▲ The low spread on these funds, is a disincentive for the banks to actively market these funds.

As a result of these constraints disbursements have been slow and most of these funds reportedly end up with the larger companies.

To expand resources for concession lending the government has developed a new programme, Development Bond 2000, which started in the fiscal year 2000/01. Under this programme, the government requires commercial banks, which will benefit from a reduction in the cash reserve ratio held at the Central Bank by 3 percentage points during 2000/1, to use part of the released funds to invest in five-year development bonds at an interest rate of 5.5%. These funds are on-lent by development banks at an interest rate of 9.5% for retooling and export finance. The funds to be mobilised through this programme are estimated at J\$ 900 million. It is likely that this programme will have similar limitations as other concessional lending programmes. Therefore, these programmes are perhaps providing some relief for some companies but are ineffective in substantially accelerating growth. Moreover, many companies need to resolve a high cost debt burden, before they can effectively invest in expansion of modernisation.

Venture capital funding is seen as an important alternative to loan funds in financing investment in the private sector. The Ministry of Industry, Commerce and Technology has commissioned a study examining the scope of setting up a venture capital fund to be co-financed between the government, the banking sector and interested international partners. Even though the conclusions of this study are positive, questions can be raised about the feasibility of such a project, as well as the desirability of government funding, and the readiness of the banks to participate in such a programme. A new private venture capital company was recently established. This company, Caribbean Investment Fund, will operate in the region and has mobilised funds from the EIB, CDB as well as other sources. The company is expected to target larger companies, but so far no investments have been made. There have been other venture capital funds and programmes, i.e. through TDB and JDF. None have been very successful. At this stage venture capital may be seen as a convenient source for refinancing high cost debt, rather than investing in innovative projects with prospects for a high return. The present high interest regime does not offer the best environment for establishing venture capital funds. This may change once macro conditions improve.

The Ministry of Industry, Commerce and Technology has furthermore a programme of support for the garment industry, whereby these companies receive a subsidy to compensate for local cost increases. This programme has not been very effective in preventing the decline of this industry. The Ministry has introduced a modernisation programme to assist small businesses in the introduction of IT technology. Other support programmes for private sector development are implemented through Jampro and the Jamaica Export Agency (JEA). One of the programmes implemented through Jampro is the EC-financed Trade Development Project. This project assists individual SME export firms as well as service providers. Assistance to individual companies takes the form of business plan preparation, followed by the possibility to support implementation activities (product development, quality assurance, marketing) on a cost-sharing basis. So far support is being provided to 39 companies, half of which are food processing companies. Jampro also provides support in to businesses in terms of marketing (linking local producers to hotels), and standardisation and certification (HASAP). On the latter Jampro collaborates with the Bureau of Standards.

The JEA implements both business advisory as well as lending programmes. It focuses on food processing, fresh produce, giftware and apparel. It started lending operations in 1995 through a World Bank loan, which has been fully disbursed (US\$ 4.6 million). To access loans under this programme companies needed a bank guarantee. JEA is also implementing a number of non-collateralised loans, using funding from USAID, as well as funds borrowed from the government and the EX-IM bank. The loan programmes charge low interest rates (around 9%). Reportedly, these programmes are performing well with low delinquency rates. The JEA is also providing business advisory services to its members, as well as non-members at varying fees. The JEA promotes in particular the introduction of IT technology (email, web site development, and other software) in small firms. It is furthermore planning a cluster type study on competitiveness of the agri-business, for which it has applied for support from USAID and DFID.

Small business support is furthermore provided through the Entrepreneurial Extension Centre at the University of Technology. This centre assists small businesses in the preparation of business plans and conducts business training programmes. It is also establishing an incubator facility with the assistance of CIDA.

In the field of micro credit, there are ongoing programmes. It appears that sufficient funding is available, although the need remains for improving financial institutions, so that they can lend more effectively to the micro sector. Several new initiatives are being taken to target micro credit programmes to the inner cities.

Administrative barriers can constitute an important obstacle to private investment. In Jamaica a study on administrative barriers, or road map analysis, was recently carried out with support from USAID. This study has been followed up by conducting workshops to identify measures to be taken to reduce specific barriers. Work on this programme is still going on. A favourable industrial relations climate is also more conducive to private sector development. In the past relations between employers and workers have been regularly subject to conflicts. To improve these relations new models of co-operation have been implemented. One such model is based on a memorandum of understanding between employers, workers and the government, which defines what contribution each party can make to the development of an industry. A successful example is the MOU for the bauxite industry. Improvements need furthermore be made in labour legislation, some of which are currently being discussed, such as introducing more flexible working hours.

The development of the private sector will also benefit from strong representative organisations. The private sector is organised in a number of representative organisations. The Chamber of Commerce (CoC) is the largest (256 members) representing manufacturing and commerce. The CoC represents the interests of their members with respect to the government on a wide range of policy issues and lobbies for support. These organisations also provide information services to their members and would like to play a more active role in promoting foreign investment and finding foreign partners for local businesses. Another umbrella organisation is the Private Sector Organisation of Jamaica (PSOJ), which represents the interest of the private sector in terms of macro economic policy. Then there are a number of industry-based associations. Most of these organisations are well established though could benefit from strengthening in the area of policy analysis. In agriculture, there is the Jamaica Agricultural Society (JAS) with over 120,000 members. At present trade issues in relation to WTO membership implications and market access to the EU and US markets are prominent issues. Furthermore, in the agricultural sector the importance of community based groups is increasing. They are active in indirect production, mainly for niche markets, and in the delivery of agricultural support services. A fundamental weakness in the further expansion of such groups is the lack of social capital.

With the introduction of the National Industry Policy, some 9 cluster based Industry Advisory Councils have been established, with representation of the private sector, the trade unions and the government. These councils report to the National Development Council, which is chaired by the Prime Minister. The Councils have been active for a period presenting to the Development Councils, strategies and programmes of action, but since then most of them have been dormant. Lack of resources and high reliance on government support has constrained the implementation of programmes.

ANNEX 5: ASSESSMENT OF ROAD TRANSPORT DEVELOPMENT

1. Description of the road sector in Jamaica

Jamaica has one of the most dense road networks in the world with 1.45 km/sqkm land area and 162 inhabitants/km. The road network and its status are shown in the following table.

Ministry of Transport & Works Road Network:		4,924 kilometres						
		Paved	Unpaved	Good	Fair/Poor	Bad	Very Bad	
- Main roads Class A (arterial)	801 km (16.3%)	0,801	-	52%	44%	01%	03%	
- Secondary Class B (arterial)	684 km (13.9%)	0,684	-	07%	55%	28%	10%	
- Tertiary Class C (arterial)	3,192 km (64.8%)	3,082	0,110	01%	30%	25%	44%	
- Urban A,B,C	247 km (05.0%)	0,247	-	30%	52%	07%	11%	
Overall	4,924 km	4,814	0,110	12%	37%	21%	30%	
Parish Councils, Ministry of Agriculture and others:		11,013 kilometres (condition estimated)						
- Parish Tertiary roads % (Est.)	9,660 km (87.7%)	5,520	4,140	01%	15%		30% 54	
- Urban streets	993 km (09.1%)	0,993	-	40%	40%	10%	10 % (Est.)	
- Agricultural/others	360 km (03.2%)	-	0,360	-	05%	30%	65 % (Est.)	
Overall	11,013 km	6,513	4,500				Source: Kocks Study	

All freight and passengers traffic by road is domestic. There are some statistical figures regarding road utilisation, as shown in the following table:

Roads under MTW/NWA	3,747 million vehicle-km	paved roads			
	2 million vehicle-km	unpaved roads	total	3,749 million v/km	
Parish Council roads	491 million vehicle-km	paved roads			
	21 million vehicle-km	unpaved roads	total	512 million v/km	
Breakdown by road class and vehicle type (MTW/NWA roads only)					
Vehicle category	A,B,C inter-urban roads	Urban roads	Total	% of ESA – km	
Cars (incl. 4WD)	56.9 %	71.7 %	62.7 %	00.1 %	
Utility Vehicles (pickups)	13.7 %	22.9 %	17.3 %	00.4 %	
Minibus/small buses	21.7 %	02.9 %	14.3 %	05.6 %	
Medium & Large Buses	01.4 %	00.3 %	01.0 %	06.2 %	
Trucks 2-axle	04.2 %	00.9 %	02.9 %	25.7 %	
Trucks 3+-axle	01.0 %	00.2 %	00.7 %	11.4 %	
Articulated trucks	01.1 %	01.1 %	01.1 %	50.6 %	
Source: Kocks Study			Total	100.0 %	

Most public transport is privatised. The government through its Ministry of Transport and Works however is involved at a number of levels. In recent years growing traffic congestion in Greater Kingston was exacerbated by the poor quality of the privately owned public transport services. The Jamaica Urban Transport Company was incorporated in 1998 and granted the license to provide bus services in the Kingston Metropolitan region, which is now operational.

Other transport modes are of no or little importance. Marine transport is limited to transshipment, import and export. The railway system connecting the main economical centres collapsed in the early 1980s with limited sections used by bauxite companies on the basis of lease. Significant air transport within Jamaica is only between Kingston and Montego Bay (business/tourists).

2. Transport policy and strategy

The Government of Jamaica does not have at this stage a clearly defined and updated transport policy, and therefore cannot respond in an effective manner to any development objectives. The National Transport Policy prepared in 1993 by the then Ministry of Public Utilities and Transport did not stress the aspect of maintenance and did not cover sufficiently all aspects of transportation (modes). The Ministry of Transport and Works is presently completing a National Transport Policy Document with the assistance of the Ministry of Transport in Canada. This document, which is partially based on the **National Industrial Policy (A Strategic Plan for Growth and Development)** published in April 1996, covering all areas of transportation, its maintenance and financing, is expected to be submitted to the Cabinet in the form of a 'White Paper' by about September 2001.

The Government of Jamaica through the then Ministry of Local Government and Construction (a part of which became the Ministry of Transport and Works) realised in the early '90s the importance of maintenance in the context of sustainability and overall economic development. As a result the Cabinet approved the Road Maintenance Policy Paper in 1996. This document dealt with all aspects of road maintenance (technically/administratively/institutionally) but fell short of securing sustainable financing and was not made public. In the meantime, the government embarked on a number of initiatives to reconstruct and improve roads in the absence of a clear policy and strategy. Decision-taking, however, seemed to have been more influenced by public demand and vested interests than a sound planning process.

The establishment of the National Works Agency, in the form presently proposed, could be seen as an initial step in the direction of more effective planning and management in the road transport sector. Shortcomings, however, still relate to financial viability and operational independence, as mentioned in recent EDF-funded studies on the matter.

3. Analysis of economic and social situation with reference to the road sector

The road transport, which put an increasing burden on the entire network, has increased significantly as a direct result of the collapse of the railway system and the liberalisation of vehicle imports during the first half of the 1990 after years of restrictions, thus opening up a significantly suppressed demand. Due to limitations in funding for road maintenance, the quality of the entire road network deteriorated as shown in the table above. The most distressed roads are those accessing the 'hinterland', where agricultural production takes place. This resulted directly in the reduction in agricultural production in areas affected. This and the deterioration of social services (health, education, etc.) lead the local population either into poverty or emigration to urban centres (or abroad), again without providing sufficient job opportunities and income. The growing number of poor 'inner city communities' in Greater Kingston, Portmore, Spanish Town and Montego Bay, together with the increased level of unemployment lead to a social decline, which more and more relies on the informal sector as well as dealing in illicit drugs and crime. For example, Greater Kingston/Portmore increased during the period 1965 – 2000 from about 300,000 inhabitants to about 1,200,000 without the corresponding increase in overall number of citizens in Jamaica.

4. Government response

In the absence of a defined and viable policy and strategy, the Government embarked on major road rehabilitation and improvements as well as the construction of a motorway between Kingston and Montego Bay with a connection to Ocho Rios (Highway 2000). Road rehabilitation and improvement covers the Northern Coastal Highway Project (270 km from Negril to Port Antonio/Fair Prospect), the Melrose By-pass (Williamsfield/ Mandeville), Moneague road section, and major urban roads in Kingston. The EDF financed RRISP covered minor inter-urban roads. The 13 km Old Harbour By-pass will be the first toll road in Jamaica. The motorway mentioned already above, whose first phase to Williamsfield (74 km) will incorporate the Old Harbour By-pass, will be implemented as design, construct and operate as toll road. Concessions will be held mainly by private operators.

Road repair programmes are presently planned as the Government response to local public demand, but preventive road maintenance remains sporadic, although on an increased level, and does not reflect a co-ordinated countrywide or regional network based effort. The major constraint is the non-existing sustainable financing with major amounts spent on road improvements.

The previous Road Expenditure Program proposal of the Ministry planned to spend J\$ 6.2 billion a year on main roads at 1999 constant prices. Maintenance and recurrent expenditure attributable to maintenance would average J\$ 1.82 billion a year or 29% of the total. Although the Cabinet accepted the proposals and committed the relevant funding, the actual budget made available for the entire Ministry of Transport & Works in the F/Y 2000/01 was only J\$ 2.5 billion, which included government contribution to donor financed projects (NCHIP, etc.). This, in combination with the public demand, lead to the present approach to implement road maintenance under 'deferred financing'.

Although road transport is the most important transport mode within the economy of Jamaica, the government intends to revitalise the passenger (later freight) rail transport to initially help to alleviate commuter traffic congestion into Greater Kingston. A Memorandum of Understanding was signed with Rail India (RITES) in 1999 but no follow up is observed.

5. Stakeholder's involvement (private sector, donors, etc) and shortcomings

There are no formal arrangements for consulting the private sector regarding road transport Policy or maintenance. There are ad-hoc contacts on demand of the private sector (road hauliers, bus owners, taxi associations, etc.) whenever road conditions are having a severe negative impact on their operation. It is the local population, which reacts with an 'outcry' if transport services cease. The usual contact between the government and donors is more project/program oriented, with no meaningful sector policy dialogue taking place. Donors and financing institutions involved in the transport sector in Jamaica, e.g. IDB and Kuwait Fund for development, want to co-ordinate their activities in the sub-sector and agree on basic principles and conditions. The EC could take the lead, being, together with the Member States, the largest donor in Jamaica.

Although projects, for which funds allocated to Jamaica under previous Lome Conventions, were considered implemented satisfactorily, severe difficulties in respect of sustainability of investment and implementation have been experienced. This applies in particular to the water cum sewerage and road sub-sectors, from which lessons have been drawn and subsequently incorporated into the EC response strategy. These problems can be summarised as follows:

(a) Reasons related to general deficiencies for which all agencies (donors/Commission, government, consultants) should assume some common responsibilities:

1. Inadequate quality of design and planning of projects, in particular in the road sector. This includes over-design/under-design of projects not always considering the local environment, overestimating the demand, underestimating the financial capabilities of the Government of Jamaica, underestimating overall financial requirements;
2. Inadequate contract and tender preparation as well as non-adherence to requirements of the Financing Agreements subsequently creating unnecessary delays and cost increases;
3. Exclusion of direct beneficiaries in the planning and decision making process (lack of transparency/public information).

(b) Reasons related to deficiencies for which the government should assume responsibility:

(Political & Technical/Financial)

1. Lack of active political support towards the fulfillment of requirements of the financing agreements or contracts in terms of maintenance to ensure sustainability, policy frameworks, to complete projects, to ensure viability as well as other commitments (finance cost overruns, administrative support, etc.);
2. Over-ambitious project designs without considering the financial implications and maintenance requirements;
3. Underestimating the need of administrative and financial support to maintain the projects completed; non-provision of funds for maintenance after completion of project;
4. Non-provision or late provision of funds for projects although budgeted for;
5. Lack of political support to enforce laws/regulations, i.e. axle load control, car's roadworthiness;
6. Continuously granting exemptions on importation and operation of heavy duty trucks and whose technical specifications exceed the legal limits (axle load);
7. Lack of adequate design standards or non-adherence to standards once adopted;
8. Lack of co-ordinated infrastructure development; overlapping interests and responsibilities;

(Project Administration & Management)

1. Lack of delegating specific responsibilities to those adequately trained, available and assigned;
2. Excessive number of levels in the decision making process and in particular contracts/ tenders;
3. Lack of co-ordination among ministries or agencies regarding their activities and having an impact on the infrastructure (National Water Commission, National Works Agency, Parish Councils and Utility companies).

(c) Reasons related to circumstances outside the responsibilities of the government or donors

1. Poorly equipped, managerial and financially weak construction industry;
2. Lack of well-trained specialised labour force for road construction and maintenance in Jamaica.

6. Road transport, private sector and social development

Business development as a sustainable engine for economic growth is a first priority for the country. Improvements in competitiveness and productivity, and increased production will play a major part in achieving this purpose. The recovery of growth requires improvements in the quality of infrastructure, particularly in the transportation network. Improving infrastructure in particular in transportation will contribute to a more competitive operation: a better network is needed to facilitate efficient transport at reasonable costs and a more balanced regional distribution of economic activities. It is urgent, therefore, to address road maintenance both through improved systems and adequate funding. Structural improvements in funding mechanisms for road maintenance need to be introduced in the light of the continued need to maintain tight fiscal budgets.

A road maintenance programme will facilitate private sector development, especially outside Kingston, by improving access and reducing transportation costs. Thus, the private sector includes the main beneficiaries of an improved and properly maintained road network. The transporters as well as taxi and bus operators are presently plagued by high vehicle maintenance costs, leaving only little for re-investment or new investments, if any. The road maintenance programme will build on lessons learnt in past road programmes supported by the EU, including the Rural Road Rehabilitation and Institutional Strengthening Project. The road programme will furthermore complement other Commission funded programmes such as Eastern Jamaica Agriculture Support Programme, which also addresses road improvement in rural communities, and the Banana Support Programme. The implementation of past road rehabilitation programmes increased agricultural and commercial activities along their routes, including refurbished and upgraded tourist attractions, hotels/guesthouses, giving an indication of the potential for development in this focal sector.

7. EC response strategy

The purpose of the Commission's response strategy is to improve the quality of the road network in Jamaica, in order to promote growth through improving access to markets and facilitating production in rural areas.

The sector based approach for road maintenance should be seen as a two-fold approach, namely establishment of financial and institutional mechanisms to ensure future sustainability on one hand, and financial EDF support to cushion the initial financial demand and requirements on the other hand. As a result of the proposed intervention in this focal area, the Ministry of Transport and Works will have developed a road maintenance strategy, and improved its capacity of implementing a road maintenance programme and funding for road maintenance. The government will have adopted a suitable and viable National Transport Policy as an essential pre-condition for EDF support.

- The first and main task should be to insist on the continuation of an open dialogue and support to achieve sustainable financing for road maintenance, as proposed in the recent EDF-funded Study to Secure Finance for Road Maintenance. This could make the Works Agency less dependent of government financing and secure sufficient funds for road maintenance not limited to the main roads, but including all other roads, in particular in the rural areas. Under present circumstances and economic conditions sustainable financing can only be achieved through a dedicated second generation Road Fund, which should receive its finance from road user

charges and/or access fees. The responsible ministries, agencies and private stakeholders in the recent follow-up workshop expressed their full support. It is only the Ministry of Finance and Planning, which claims that a Road Fund would restrict Government's flexibility of fund allocations, although it would improve flexibility by freeing funds presently budgeted for road maintenance. It is however important to create a level of public awareness and accountability, where overall public support towards the efforts of the government can be sustained as well.

- The new National Works Agency and other responsible bodies (Parish Councils, National Housing Trust, Ministry of Agriculture) should be designed to a level where the efficiency of planning, administration and management through skilled and determined staff, timely response to emergencies, execution of maintenance works meets the expectation of all stakeholders. It should as well meet the requirements for economic growth in particular in areas presently underdeveloped.
- Law enforcement activities should be initiated and followed to ensure that roads, which are built and maintained, be properly used by vehicles adequate to their design. This also implies charging for damages by road users, etc. Wherever applicable, propose and follow-up amendment of traffic regulations to ensure adequate use of roads.