

**MULTI-YEAR ECONOMIC PROGRAM
CURAÇAO
2004 – 2007**

**Part II
SUBPROGRAMS**



Island Department of Economic Affairs (DEZ) Curaçao

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Multi-Year Economic Program (MEP) Curaçao
Part II Subprograms
2004 - 2007

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1 Introduction

This document forms Part II of the Multi-Year Economic Program Curaçao 2004 - 2007. Part II provides more detailed information on objectives and content of the program. For a general overview Part I will suffice.

Part II gives in-depth information of all four pillars of the economic program:

- A. Macroeconomic stability
- B. Enabling business environment
- C. Stimulating specific economic sectors
- D. Supporting policies

These four areas contain a variety of policy fields. For all of these policy areas so-called subprograms are drawn up, in which detailed pictures of government policy, running and proposed projects, policy actions and target indicators are presented. The subprograms were drawn up in cooperation with stakeholders in both the private and the public sector. In each subprogram the same structure is applied:

1. Summary;
2. Description and analysis subsector with (among other things: characteristics of the sector, the current government policy, indicators, a SWOT analysis for each sector and critical success factors)
3. Planning subsector (among other things: objectives, indicators and planned policy actions and projects)

Part II can be seen as an extension of chapter 3 (objectives and content of the program) of Part I providing further detailed information on objectives and content.

2 Macroeconomic stability (A)

2.1 Macroeconomic Stability

2.1.1 Summary

The macroeconomic situation of the Netherlands Antilles is characterized by fiscal vulnerabilities such as substantial budget deficits and a rising public debt. On the other hand, the monetary policy has been stable in the sense that the value of the local currency has been pegged to the US dollar since the 1970's, while inflation has been relatively low. Till the end of 2001, the government and the IMF worked on a program to further achieve macroeconomic stability and in this regard focused specifically on measures to restore fiscal discipline and achieve a viable budget. Although economic growth has picked up over the last years, the economic recovery is still fragile. Persisting problems concerning the fiscal situation and public debt, an unaccommodating investment climate and a general lack of consumer- and investor-confidence have an adverse effect on economic performance.

2.1.2 Description and analysis subsector

2.1.2.1 Characteristics of the macroeconomic situation

Preserving macroeconomic stability is a basic requirement for economic development. A stable macroeconomic situation generates (to a degree) certainties that are necessary for sound economic decision-making of consumers, the private sector and other economic agents. A situation of high inflation rates, unstable exchange rates or high fiscal deficits that disrupt the local capital market, can result in a wait and see strategy with investors, which will not benefit economic growth. For example, in the year 2000 a high inflation rate in Curaçao led to a substantial decrease of purchasing power. Companies are affected by the high inflation and the decrease in purchasing power too, which leads to postponement of investments. The high fiscal deficits of the government led to some 'crowding out' on the capital market (less funds available for private investments) and to liquidity problems in the private sector as a result of slow government payments when purchasing goods and services. For investors in long-term projects, and for the saving behavior of consumers, it is important that policies are not altered in ad hoc ways whenever a country suffers an external shock or imbalance.

The following specific aspects of the macroeconomic climate are distinguished:

- The fiscal situation, in particular the state of the governments' budgets of the island and the country, and the public debt situation;
- The monetary situation in terms of the exchange rate of the local currency and the stock of foreign currency reserves;
- The balance of payments that does not show structural deficits;
- Price stability (low inflation);
- The degree of social cohesion among major economic stakeholders such as labor unions and business organizations;
- Political stability;
- Judicial infrastructure ensuring economic rights.

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The latter three are important as additional information for potential foreign investors in assessing the overall business climate of a country.

Real economic growth is estimated at 0.5% for 2003 and nominal growth at 2%, indicating the third consecutive growth year after a pronounced period of decline over 1997 - 2000. This signals a tentative economic recovery, but one cannot conclude yet that Curacao has left all economic woes behind. The economic growth was mainly based on trade, tourism, the financial sector and logistics, while construction and industry had a poor year. The number of employed persons rose with a staggering 8% in 2003, but this increase was partly the result of the grace period for illegal persons on the island. A negative signal in 2003 was the hesitant stance of local investors, and to a lesser extent consumers, which indicates that confidence in the economy of Curacao is suboptimal. Forecasted growth for 2004 amounts to 1.8%, but is conditional on tourism growth and improvements in investment climate and the fiscal situation.

Since the mid-1990's Curaçao and the Netherlands Antilles have suffered fiscal imbalances, which, among other things, have absorbed part of the financial resources available to the economy. The current fiscal situation is still characterized by deficits and a worrisome public debt situation. Efforts have been made over the last years to curb government expenditure and to increase revenue. On the expenditure side mainly the personnel costs decreased substantially, due to massive staff reductions in 1999. The effects of this reorganization on wage costs took some years to crystallize. New taxes were introduced and some tax rates were increased, but total revenues did not increase as much as expected because of the economic recession. Consequently, the budget deficits in % GDP improved only marginally.

The exchange rate of the Antillean Guilder has been pegged to the US dollar since the 1970's at a rate of 1.79 ANG to 1 USD. The peg has provided a stable nominal anchor, although according to the IMF this stability can come under threat when the government cannot manage to get budget deficits and the debt position under control. A deteriorating public debt situation could lead to ever decreasing confidence in the economy and ultimately a capital flight that would deplete the foreign currency reserve. By international standards a foreign currency reserve of at least 3 months merchandise imports is optimal to maintain a peg. According to the central bank the total international reserves increased to ANG 1255 million in 2003 q3 or about 2.6 months of merchandise imports. The reserves amounted to ANG 1187 million in 2002, which incidentally indicated an import coverage of exactly 3 months at that time. These recent figures are relatively favorable, as foreign currency reserve was at a dangerously low level in the mid nineties. It sank to the amount that is equal to 1.5 months of merchandise imports. Especially the decrease of the contribution of the financial offshore sector to the generation of foreign currency reserves created this situation, in combination with a situation of credit expansion. The latter increased the financial resources available to the public which translated itself into higher imports and thus to a lower level of foreign currency reserves. From 1995 to 1999 a much tighter monetary policy (with limitations of credits to both government and private sector) prevented further decline.

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Deficits on the balance of payments in the first part of the 1990's, especially on the current account, led to the above-mentioned shortage of foreign reserves. The current account of the Netherlands Antilles showed structural deficits, on average some 6% of the GDP in the period 1996-1999. This is caused by a strongly negative merchandise trade balance that is not sufficiently offset by services or other incomes. Tourism and transportation show a positive balance, while also the inflow of tax money related to the international financial services sector generates foreign reserves. For 2002 the current account balance NA turned positive for the first time in many years with a surplus of 1.2% as a percentage of GDP, while the first 3 quarters of 2003 indicate an even higher surplus of 5.3%.

The capital balance is usually positive, the last few years especially helped by 'government capital' which mainly consists of development aid from the Netherlands¹. The surplus has been slightly under 50 mln for 2002 and 2003.

Inflation reached 2.0% in 2003, up from 0.4% in 2002. This rise was partly the result of higher utility costs. The inflation rate in the early 1990's was up to 4% in a situation of economic growth and a 'loose' monetary policy. In the second half of the decade the inflation rate was lower, varying between 1 and 3%, but considering the economic situation of zero or negative growth since 1996, this is relatively high. The rise in consumer prices since October 1999 was mainly caused by the increase in sales tax from 2 to 5 percent in that month. This effect remained visible in the price equations till October 2000. After October 2000 consumer prices increased only slightly because the effects of the increase in sales tax disappeared from the figures. As a small island economy that imports a large part of its products, Curaçao's inflation rate depends also on the development of the price levels of its main suppliers, which are the United States and the Netherlands. The increase in world oil prices in the year 2000 also pushed up the local prices of gasoline, water and electricity.

The social situation in Curaçao in terms of unrest or confrontations has been relatively calm. However, in terms of poverty, illiteracy and crime the situation has worsened. While the relationships between the business organizations, the trade unions and the government cannot be characterized as structurally cooperative, there have been relatively few strikes or other larger conflicts in the last decade. When these strikes did take place, they all occurred in government sectors, within the private sector the dialogue between the two social partners can be described as good. The fact that there have been relatively few strikes can be attributed to the high increase of the wage rate within the state-owned companies, and in parts of the private sector.

The judicial infrastructure of the Netherlands Antilles consists of a sound legal system, largely based on the legal system of the Netherlands. This ensures a fair system of the economic rules of the game.

¹ Development loans are fully registered on the capital account. For the Liquidity support (budget support as part of realizing IMF targets, partly loan, partly gift) from the Netherlands only the loan part is registered on the capital account, gifts are registered on the current account, if they are diverted to current expenditures.

2.1.2.2 Government policy with respect to the sector

Fiscal Policy

Fiscal deficits and the consequential rising public debt have been a matter of concern for some years now. The IMF has urged the Netherlands Antilles on a number of occasions to introduce structural fiscal reforms to deal with this problem. Their staff report of June 2003 concluded that unchanged policy will become unsustainable over the next three years resulting in the loss of the fixed exchange rate of the guilder vis-à-vis the US dollar. In their report of July 2003 the commission on public debt issues reaches the same conclusion and gives recommendations to tackle the problem.

The commission advises to freeze real primary expenditure (real expenditure net of debt service) over the period 2004-2008 and to introduce additional cuts in expenditure of approximately ANG 21 mln per year. Together these measures should average a saving of ANG 48 mln in expenditure per year over aforementioned period. Furthermore, a balanced budget should be attained by the year 2008 with budget surpluses thereafter.

The result of the expenditure cuts should be a marked amelioration of the public debt position. In the third quarter of 2003 public debt amounted to Naf 2.3 bln for EGC and Naf 4.2 bln for NA, or 63% and 85% as a percentage of EGC and NA GDP respectively. In addition to the expenditure cuts the commission advocates a restructuring and refinancing of existing debts as well as partial elimination. Total debt as a percentage of GDP on the NA level should be brought down to 70% in 2010. Over the long run this figure should drop to 40% - 50%.

The tax system revision has been in the pipeline for some time now, but real progress seems to be made to introduce the new system in 2005. This will entail a decrease in direct tax rates, a simplification of the system and should ultimately lead to a more favorable economic climate. High statutory rates and the complexity of the system have been impeding the investment climate, while at the same time somewhat stifling consumption. The indirect tax revision could take place in 2004 already. Overall, extensive efforts to increase tax compliance and improve the efficiency of collection are at the base of the total tax revision.

Monetary Policy

The monetary policy is, like in many other countries, conducted by an independent Central Bank, of which the main objective is to safeguard the fixed exchange rate the Antillean guilder has with the US dollar. In the past this has proven to be a credible nominal anchor. To this end it is important that the level of foreign reserves is large enough to ensure the convertibility of the guilder at this peg. According to international standards the level of official reserves should cover at least three months of merchandise imports. This goal is pursued by the Central Bank through control of the domestic credit expansion mainly through variations in the reserve requirement. In 2003-III the import coverage was 2.6 months according to BNA figures.

In 2002 the growth of loans to the private sector amounted to 4%, an increase compared to the zero growth during 2001. The extension of loans to the private sector dropped again in 2003 as a result of a decreased willingness to invest on the part of local businesses. A lack of investor confidence due to uncertainty regarding the

overall economic situation and government policy can be blamed for this hesitant stance.

Balance of payments

Policies focused on preventing deficits on the balance of payments are, on the one hand, a monetary policy with credit restrictions for the banking sector that indirectly reduce (the growth of) imports, and, on the other hand, an export policy (see the section "enabling business environment") and the facilitation of export-related sectors (see the section on stimulating specific economic sectors) in order to generate more foreign currency reserves.

Price stability

The Central Bank does not have a direct inflation policy, because of the small size of the Netherlands Antilles and its dependency on imports. Indirectly it controls inflation through the fixed exchange rate it has with the dollar.

The government can also be said to have no specific inflation policy. However, it directly contributes to the inflation rate with its fiscal policy. The lowering of public expenses will also reduce the price pressure on certain goods. Furthermore, it contributes to a climate of price stability by regulating the prices of certain public utility goods and basic requirement products.

The government determines the local maximum prices of fuel products on a quarterly basis. Based on the fluctuations of the world oil prices, and information of Curoil (the state-owned company that distributes fuel products) and PdVSA (the sole supplier of the fuel products), consumer prices are adapted. The Island Government also determines prices of water and electricity on a 3-month basis, supplied by Aqualectra, which is principally responsible for the production and the distribution. Prices are adjusted to changes in world fuel prices.

In the health care sector prices or margins are set for medicines, medical institutions, medical professionals and medical products. The government determines the tariffs or margins on a cost base. With the main objective to keep products affordable for lower income groups, the government establishes maximum prices for a set of so-called basic requirements goods, like milk (powder), butter, salt and flour.

Social cohesion

The social partners work together in the Social Economic Council. The Social Economic Council (SER) is one of the most important advisors of the Government of the Netherlands Antilles. The main purpose behind this advisory function is to keep the government informed of the support within the society for government proposals. In writing its advice, the SER keeps account of the following objectives: economic growth, full employment, a stable balance of payments, equitable income distribution and a stable price level. Besides the meetings of the Social Economic Council, another regular dialogue between the social partners takes place during wage negotiations at the sector level.

Political situation

The two layers of government have in the past contributed to high costs and unnecessary bureaucracy. In their coalition agreement 2003-2006 the central government states to strive for decentralization and deconcentration of public tasks from the central to the island level. The goal of this policy is to improve and reinforce governance of the respective island territories.

The issue of constitutional affairs has been the subject of general malcontent amongst some of the islands for some time now. In the coalition agreement the Central Government recognizes St. Maarten's express wish to leave the Netherlands Antilles and stated that government policy will facilitate this withdrawal. Furthermore, the government gives the other islands the opportunity of a referendum to determine their constitutional status.

Currently several studies are being executed in the Netherlands Antilles to investigate the benefits and costs of integration with the European Union. These studies bring the options of UPR (becoming an ultra peripheral region of the EU) and OCT status (Overseas Countries and Territories of the EU) under scrutiny. First result should be published in 2004.

2.1.2.3 Stakeholders and other relevant parties

- Central Bank of the Netherlands Antilles
- Department of Finance (central and island)
- Department of Economic Affairs (central and island)
- SER
- Business community
- Labor unions
- The government of the Netherlands, especially the Ministry of Internal Affairs and Kingdom Affairs.
- International institutions such as the IMF, World Bank etc.
- Utility companies, health care institutions, wholesale companies/importers

2.1.2.4 Other relevant activities

In 2003 the dire financial situation came to a head when the EGC had to borrow money from three local banks in order to meet its financial obligations. In exchange for the loan, the banks asked for a comprehensive plan to lead the economy of Curacao back on the right track.

In October 2003 a large number of departments and institutions set about conceiving an integral policy plan for the EGC. The plan should yield one clear document in which the approach to the problems faced by Curacao is described. 3 main policy areas were identified as being instrumental for the plan, namely social, financial and economic policy.

The economic plan is a short term MEP and will be based on 3 areas. The current investment climate on Curacao is far from beneficial for the economic growth and is in need of improvement. One can think of reducing red tape and waiting time for potential investors. On a sectoral level investments have to be made that offer the best possibilities for enduring economic growth. Finally, government finances have a

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strong impact on economic performance and should therefore be sound and not hinder economic development.

The financial plan will tackle Curacao's problems concerning government finances. This plan will contain a new tax system and better ways to enforce tax compliance in order to improve the revenue of taxes. The expenditure side of government finances is addressed with detailed policy plans regarding the enforcement of budget rules and – discipline.

The social plan contains subplans to fight poverty, improve education, restructure healthcare and improve the functioning of foundations.

Integrity is a key factor for the total policy plan, because all 3 fields of policy influence each other and have an impact on macroeconomic stability. In drawing up the plan, the different groups can base themselves on policy recommendations made by such institutions as the IMF and the Worldbank.

A large-scale and fairly complex project concerning the modernization of governance got underway in 2000. This project is not limited to a specific sector but aims to improve the general functioning of the Curacao government and is as such also important for the macroeconomic situation. Over the period 2004-2007 a large number of subprojects concerning amongst others the internal management of departments and improving information and communication technology are proposed.

2.1.2.5 Available background information, reports and policy papers

- IMF, 2003 Article IV Consultation - Staff Report (June 2003)
- Commissie Schuldenproblematiek, Op Weg naar Gezonde Overheidsfinancien (july 2003)
- World Bank, Netherlands Antilles: Elements of a Strategy for Economic Recovery and Sustainable Growth (2001)
- Regering van de Nederlandse Antillen, Regeerakkoord 2003 – 2006 (July 2003)
- Regering van de Nederlandse Antillen, Regeerakkoord 2002-2006 (2002)
- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997)
- Government Program of the Island (Urgentieprogramma 1999-2003) (1999)
- IMF, Policy matrix Memorandum of Economic Policies, (2000)
- Annual reports and quarterly bulletins Central Bank (BNA)
- Price regulations (DEZ)
- Statistical Yearbooks, National Accounts CBS
- Government Budgets
- Economic Outlooks (DEZ)
- 1963 Price-Fixing Ordinance

2.1.2.6 Indicators past years

Table 1 Macroeconomic indicators

	1980	1990	1999	2000	2001	2002	2003 ¹
Real GDP growth (annual, %)	14	0.8	-2.0	-2.1	1.2	0.7	0.5

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	1980	1990	1999	2000	2001	2002	2003 ¹
GDP (ANG mln)	1426	2340	3270	3392	3526	3639	3712
Growth world real GDP	2.9	2.8	3.6	4.7	2.3	3.0	2.3
Unemployment %	20	18	15.3	14.2	15.8	15.6	15.1
Investment growth (annual, %)	-20	-18	5.9	-2.3	2.6	2.9	-1
Foreign Exchange Reserve (ANG mln)*	246	495	763	636	1052	1187	1255
Months Import coverage*			2.3	2.0	2.4	3.2	2.6
Current Account Balance (% GDP) *	1	0	-13	-1.9	-7.8	1.2	5.3
Inflation %	15	3.7	0.4	5.8	1.8	0.4	2.0
Financing deficit (% GDP)	8	6	-4.3	-0.5	-1.7	2.2	-2.5
Public debt Curaçao in billions ANG			2.1	2.0	2.1	2.2	2.3
Public debt Curaçao (% GDP)			62.3	58.8	59.1	58.9	60.6
Total public debt NA in billions ANG*	0.7	1.5	3.3	3.3	3.5	3.8	4.2
Total public debt NA (% of GDP) *	44	46	72.3	70.1	73.7	80.6	85.4

Source: BNA, CBS, IMF, Department of Finance, DEZ

* Data for the Netherlands Antilles

¹ 2003 data are preliminary and subject to revision.

2.1.2.7 SWOT Analysis

Strengths

- The successful peg of the Antillean guilder to the US dollar since 1971

Weaknesses

- Rigidities in the labor market and the capital market
- Relatively little local consumer and investor confidence

Opportunities

- Revision of the tax system

Threats

- Enduring problems regarding public finance.

2.1.2.8 Critical Success Factors and Preconditions

- Prudent fiscal policy and move towards amelioration of the debt situation.
- Improvement of the investment climate
- Well-functioning capital and labor markets
- Successful implementation of the Integral Policy Plan.

2.1.3 Planning subsector

2.1.3.1 Subsector Objective(s)

The subsector objective is to create a climate of macroeconomic stability in the long run. The following subobjectives are identified:

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- Balanced budget/sustainable debt
- Stable exchange rate
- Stable balance of payments
- Price stability
- Social cohesion
- Political stability

Although not regularly figuring amongst macroeconomic goals, the latter two subobjectives are of unquestionable importance for the economic climate on Curacao. Local and international investors are looking for a stable situation when deciding on their investment decisions.

2.1.3.2 Desired future development of indicators

Calculations made with the economic model Curalyse yield forecasts for economic performance of Curacao. The results of the baseline (unchanged policy) and the projected effects of MEP actions are presented in table 2 below. The exact method and input to arrive at these results are given in part I of MEP. The figures in the baseline incorporate the economic information available, but one should be cautious in using these as precise forecasts. Most important are the deviations from the baseline, which show the estimated impact of MEP policy.

Table 2 Indicators for macroeconomic stability

	Baseline				MEP scenario (deviation from baseline)			
	2004	2005	2006	2007	2004	2005	2006	2007
Real GDP growth %	1.8	2.0	2.1	2.1	1.7	1.3	1.8	1.9
Inflation (%)	1.3	1.2	1.2	1.2	0.4	0.3	0.3	0.0
Budget deficit (% GDP)	2.5	2.5	2.4	2.2	-0.3	-0.5	-0.7	-0.9
Employment (% change)	1.2	0.7	1.0	1.0	1.6	1.3	1.6	1.6
Private investment (%)	-1.2	-1.8	-2.5	-1.9	6.5	2.9	4.6	3.5
Private consumption (%)	0.6	2.0	2.2	2.2	1.0	1.3	1.5	1.7
Exports (%)	1.8	2.1	2.1	2.1	1.6	1.9	2.4	2.7
Imports (%)	0.8	1.1	1.1	1.2	2.7	1.8	2.4	2.2

Source: DEZ – Curalyse

2.1.3.3 Identification and analysis of all relevant activities and projects to be implemented

It is difficult to identify and analyse specific relevant activities and projects to be implemented within the scope of macroeconomic stability. The DEZ only has an advisory role towards the Executive Council of the Island Territory of Curaçao and specifically towards the Commissioner of Economic Affairs. Besides the advisory role, the DEZ releases the yearly publication “Economic Outlook” in which the macroeconomic and sectoral developments are presented. The DEZ also makes use of a macroeconomic model, named “Curalyse” to analyze the economy and to calculate all kinds of economic policy measures.

MEP Policy Actions

- ***The real macroeconomic situation***
There is no specific policy concerning the macroeconomic situation. Fiscal, monetary, balance of payments policy, price policy and sectoral policies will influence the real macroeconomic situation. Indirectly the DEZ will influence the real macroeconomic situation by sector policy and by means of advising the Commissioner of Economic Affairs, if requested, and on a proactive basis. Within this scope the macroeconomic model "Curalyse" is a useful instrument.
- ***Fiscal policy, monetary policy and balance of payments policy***
Fiscal policy is in the hands of the Curaçao Department of Finance and the Department of Finance on Central level. Monetary policy and Balance of Payments policy is in the hands of the Central Bank. The DEZ will focus on the relation between public finance, monetary policy and balance of payments developments and the economy of Curaçao vice versa and will advise the Commissioner of Economic Affairs, if requested, and on a proactive basis. Within this scope the macroeconomic model "Curalyse" is a useful instrument.
- ***Price stability***
 - Establish formal policy of regulation for production and distribution of water and electricity;
 - The revision of the present tariff policy concerning medicines in order to reduce costs;
 - Set rules for the establishment of medical professions in order to reduce allover costs in the public health sector;
 - Evaluation of the present policy concerning basic requirement goods.

MEP Projects

Macroeconomic model Curalyse (In the context of the advisory role of the DEZ)

2.1.3.4 Assumptions and risks

No specific assumptions and risks can be mentioned in this part

3 Enabling Business Environment (B)

3.1 Labor Market Policy

3.1.1 Summary

The Curaçao labor market is characterized by a lack of mobility (due to lack of alternatives), relatively high labor costs and high youth unemployment. In addition, labor productivity² is low as compared to labor cost. Other characteristics are the mismatch of labor demand and labor supply and, as a result, the large number of foreign workers.

Inflexibilities and rigidities on the labor market in Curaçao were considered to be major deficiencies (studies made by IMF, Inter-American Development Bank and World Bank) that hampered economic growth. This changed in the year 2000 when changes were made in the labor market laws and regulations in order to increase flexibility and mobility on the labor market. In addition, private mediation must improve matching of labor demand and labor supply. This, in combination with initiatives to increase labor productivity, should attract (foreign) investors, improve (international) competitiveness and consequently stimulate economic growth.

3.1.2 Description and analysis of the sector

3.1.2.1 Characteristics of the sector

The Department of Labor and Social Affairs considers the current situation on the labor market less rigid than in the 1980-s. A striking fact is the finding that a relatively large proportion of employees in Curaçao have 'jobs for a lifetime'. Employees tend to hold on to the one job they have (lack of mobility), because of the lack of alternatives, partly due to the economic recession.

Stagnating and even declining productivity characterize part of the labor force of Curaçao. While wages are perceived to be high in proportion to productivity, there are other factors that also increase the cost of labor. Tax on labor income is relatively high in the Netherlands Antilles and this has an upward effect on labor cost.

A striking characteristic of the labor market is the mismatch of demand and supply of labor and the shortage of local (Antillean) expertise. With the tourism sector expanding, and also at the BOO/IRUP projects, this characteristic turns out to be a major disadvantage. Attempts to increase the supply of labor via crash-courses for these sectors were not totally successful. This is especially true for the BOO/IRUP projects where many foreigners have performed tasks of different skill levels.

Curaçao is also experiencing high youth unemployment rates that fluctuate around 30%. Most of the unemployed have not finished their education and lack the skills and abilities to enter the formal labor market. This is a complex problem that is being tackled at different levels, through (training) programs operated via community

² Measured as GDP/number of employees

centers and extracurricular activities and on a macro level, the restructuring of the entire (vocational) educational system. This should help young people to acquire a formal education and in time make a successful transition to the labor market.

3.1.2.2 Government policy with respect to the sector

In the year 2000 labor laws were adjusted and made more flexible due to the need felt to improve the working of market forces and the investment climate. Important changes are:

1. The suspension of the dismissal law. In most sectors employers in the private sector did not need a permit in advance anymore to dismiss individual employees. This suspension has been discontinued halfway 2003 however which means that permits are needed again for dismissing individual employees.
2. Private labor mediation is allowed under the new law;
3. Employers, under the new law, have the possibility to shift working hours between weeks in order to avoid overtime. In addition, regular working hours per day were increased. These changes are estimated to decrease overtime substantially, and labor cost as a result;
4. Abolition of permits, for instance for overtime;
5. In addition, the Government of the Netherlands Antilles and the International Monetary Fund agreed on stronger flexibilization of point 3: For all types of labor (regular, scheduled labor and in the Hotel&Catering and Casino industry) the regular maximum amount of working hours has been increased from 9 to 10 hours per day (without overtime). This increases the possibility of shifting between weeks in order to avoid overtime.
6. The government also decided to equalize the minimum wages to ANG 5.77 (per hour) for all 4 categories. However, the new wages have not been implemented yet. For some segments of the labor market this might result in increasing labor cost, which could have adverse effects on employment.

The increase in the regular amount of working hours per day as well as the possibility for employers to shift working hours between weeks, can decrease the cost of labor substantially. The Department of Labor and Social Affairs has estimated that the cost of overtime can be decreased by 50% due to these changes in labor laws.

Furthermore the government also concentrates on matching the supply and demand on the labor market. The government (via MEP) organizes special crash-course programs in order to meet a rising demand in specific sectors such as tourism and e-commerce.

Another important aspect is the admittance of foreign workers. The LAV-law (Landsverordening Arbeid door Vreemdelingen) contains regulations regarding the admittance of foreigners. Currently the Island Department of Labor, which is entrusted with the execution of the LAV, is working out the details of these regulations.

3.1.2.3 Stakeholders and other relevant parties

- Department of Labor and Social Affairs (Departement van Arbeid en Sociale Zaken)

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- Department of Economic Affairs, Netherlands Antilles (Departement van Economische Zaken)
- Department of Economic Affairs, Island Territory of Curaçao (Dienst Economische Zaken)
- Department of Labor, Island Territory of Curaçao (Dienst Arbeidszorg)
- Department of Work and Income, Island Territory of Curaçao (Dienst Werk en Inkomen)
- Socio-Economic Council (SER)
- Labor unions
- Employers

3.1.2.4 Other relevant activities

- Free admittance for Europeans with Dutch nationality: no need to apply for a permit for work anymore. The Island Department of Labor (Dienst Arbeidszorg) is responsible for the admittance of foreigners, other than Dutch Europeans. Currently the conditions for granting these permits are being formulated.
- The 'Labor Productivity' committee was installed and published a report with proposals to improve labor productivity. The Department of Economic Affairs of the Netherlands Antilles has implemented some of these proposals. This committee was an initiative of the Ministry of "National Recovery" and Economic Affairs.
- The Curaçao Institute for Social and Economic Studies (CURISES) has founded a "Center for Economy and Labor" (Centrum voor Economie en Arbeid) that aims at increasing labor productivity.
- In order to operate more efficiently and to increase customer satisfaction several government agencies have opted for ISO certification.
- A Council for Education and Labor has to be installed. This Council will be tripartite in nature, consisting of five representatives of the government, five representatives of the private sector and school administrations, and five representatives of the labor unions. The task of the Council is to advise the government on developments on the labor market, the formulation and recognition of (new) curricula and the promotion of traineeships in the private sector, in order to synchronize the demand with the availability of labor.

3.1.2.5 Available background information, reports and policy papers

- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997) (1997)
- Report on reschooling in the Netherlands Antilles (Match-mismatch, om-, her- en bijscholing in de Nederlandse Antillen) (1998) (Report written by Verton-advies)
- Report of the Commission of National Recovery (Rapport van de Commissie Nationaal Herstelplan) (1999)
- Report on collective labor agreements (CAO-onderzoek), Department of Labor and Social Affairs (1998)
- Report on private sector dismissals (Ontslagen in de Private Sector), Department of Labor and Social Affairs (2000);
- Report on overtime (Onderzoek naar overwerk), Department of Labor and Social Affairs (2000).

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- Report of the Labor Productivity Working Party (Werkgroep Arbeidsproductiviteit Nederlandse Antillen, Eindverslag 'Werkzaamheden, resultaten en aanbevelingen) (June, 2000)
- Publications of the Central Bureau of Statistics.

3.1.2.6 Indicators past years

Table 1 Labor market indicators past years*

	1998	2000	2001
Employed	52 962	52 236	47 686
Unemployed	10 543	8 531	8 973
Labor force	63 505	60767	56 659
Youth unemployment rate	35.6	27.2	33.8
Unemployment rate	16.6	14.0	15.8

Source: Central Bureau of Statistics

*Figures for 1999 not available.

3.1.2.7 SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • High priority of the Governments • Flexibilized labor laws 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Low mobility on the labor market • Rising cost of labor • Low productivity as compared to labor cost
<p>Opportunities</p> <ul style="list-style-type: none"> • Restructured educational system • MEP crash courses • Availability of student loans 	<p>Threats</p> <ul style="list-style-type: none"> • Shortage of local expertise • Lack of initiatives to attract Antilleans living abroad to Curaçao

Strengths

The Governments are fully aware of the importance of an adequately operating labor market, especially since it directly affects the investment climate. Therefore the labor market laws were adapted to the requirements of a modern economy.

Opportunities

The restructured education system is the beginning of upgrading the supply of labor. Much attention is paid to new techniques, e.g. ICT-related skills, and there is a direct link between local or even global developments and the curriculum. Crash courses are used to provide people with the necessary skills, on the short term. A great opportunity for young people exists in the availability of, and relative easy access to scholarships and loans.

Weaknesses

One of the major weaknesses remains the low mobility of workers on the labor market. One way of making workers "employable", thus increasing mobility, is by extending their knowledge and abilities.

Threats

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Because of the economic recession many Antilleans have moved abroad (mostly to the Netherlands), which has led to a shortage of local expertise. This has resulted in the presence of many foreign professionals in every segment of the economy. Furthermore, Curaçao lacks incentives to attract educated Antilleans back to the island. Another threat is the already mentioned high cost of labor.

3.1.2.8 Critical success factors and preconditions

- Labor legislation (Government of the Netherlands Antilles) that creates sufficient flexibility.
- Tax legislation (Government of the Netherlands Antilles) partly determines labor costs and, therefore, needs to be made more 'labor-friendly' (see 'Tax Policy').
- Social security (AOV, AWBZ, AWW) partly determines labor costs and should not be further increased.
- Restructuring of the vocational education system.

3.1.3 Planning subsector

3.1.3.1 Subsector objectives

The objective of labor market policy is to increase the match between demand and supply and flexibility of the labor market and to increase labor mobility and to reduce labor costs.

3.1.3.2 Desired future development of indicators

The following variables were identified as suitable indicators to measure the functioning of the labor market: level of employment, level of unemployment, change in labor productivity.

Table 2 Indicators for labor market policy

	2003	2004	2005
Employment level	48 639	49 613	50 605
Unemployment rate	-1	-1	-1
Change labor productivity %	+2	+2	+2

3.1.3.3 Identification and analysis of all relevant activities and projects to be implemented

MEP Projects

(These projects are also mentioned in the sections on innovation (3.7), tourism (4.1), and e-commerce (4.5))

MEP Projects being implemented		
MEP Code	Name	Project owner
C-T-42	Crash Course Horeca	CTDB
MEP Projects submitted for funding		
C-T-41	Human Resources Strategy Plan	CTDB
MEP Projects in preparation		
C-T-45	Investors in People	CQF
C-EC-1	Crash Course E-commerce	CECP

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Policy actions others

Policy actions rely on the results and findings of the evaluation of the effects of the flexibilization of the labor market.

Projects others

Remigration project: on the condition that Antilleans (living in the Netherlands) have accepted a job in the Antilles, the Dutch government offers to pay for the passage.

3.1.3.4 Assumptions and risks

- Cooperation between the responsible Island Departments when necessary and easy exchange of information between departments.

3.2 Capital Market

3.2.1 Summary

The capital market of the Netherlands Antilles is not functioning adequately and is slow in responding to economic developments. To stimulate investments and economic growth, more adequate availability of productive financing is necessary.

3.2.2 Description and analysis subsector

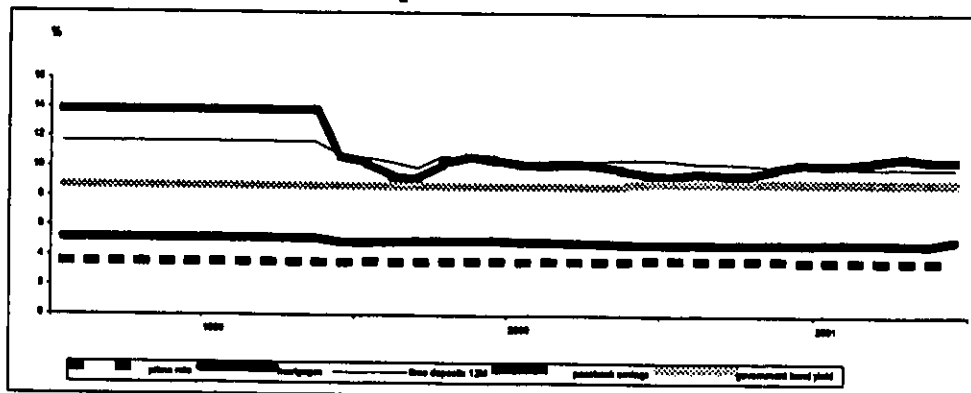
3.2.2.1 Characteristics of the sector

The domestic capital market is subject to significant limitations, which reduce its contribution to facilitating economic activity. The main financial institutions are commercial banks, credit unions, insurance companies, pension funds and a development bank. The financial institutions are under the supervision of the Central Bank of the Netherlands Antilles.

The commercial bank sector is characterized by an oligopolistic structure. The largest bank controls about 50 percent of the market and the three largest banks about 80 percent. In total 6³ commercial banks are active on the local Curaçao market. During the last two decades increasing concentration has taken place. Other parties on the local banking market are, among others, Korpodeko and Feck, two government foundations aimed at financing commercial investments in specific target sectors, for example in small and medium-sized enterprises (SMEs), covering a small segment of the market.

Although several interest rates decreased during the first half of 2002 (see selected indicators), the capital market is characterized by high interest rates and high transaction costs. High transaction costs can be a problem for the development of, for example, E-Commerce. In particular small and medium-sized enterprises have difficulty in gaining access to funds, partly because of the conservative nature of banking practices by which high levels of collateral, a track record and formal projections may be required in order to obtain loans.

Figure 1 Interest rate development



³ Seven banks hold a license for domestic banking, but only six are actively involved in offering banking services.

3.2.2.2 Government policy with respect to the sector

During the coalition agreement 1999-2002 the former Minister of Economic Affairs installed the Capital Market Flexibilization Committee to investigate the possibilities of a more efficient price setting on the capital market. However, because of several reasons this committee never completed their assignment.

Currently, there is no specific government policy with regard to the capital market except that in the Coalition Agreement 2002-2006 the new government of the Netherlands Antilles underlines the need to restructure the local capital market. Recently the Minister of Economic Affairs re-installed the Committee.

Generally speaking, flexibilization of the capital market may lead to:

- A better functioning capital market where supply and demand find each other
- More adequate availability of capital at lower costs.
- Efficient movement of capital
- An interest rate that reflects developments of demand and supply
- Better choice for customers and better service

These characteristics are expected to have a positive impulse for local investments and employment.

The Central Bank of the Netherlands Antilles regulates the capital market, including the entry of new suppliers of capital. Competition on the local banking market is stimulated by the Central Bank by adaptation of its monetary policy instruments. Mainly because of the relative high amount of foreign reserves, the reserve required to be kept on a non-interest bearing account at the Central Bank was lowered. Banks are also able to lend money to the Government again. The position of the smaller banks was strengthened by these recent adaptations.

In addition to the needed more structural measures the government has pleaded for the foundation of a 'Herstelbank' (Bank for Economic Recovery), which will be co-funded by the Netherlands and the Netherlands Antilles. This bank would provide partial funding for large scale investment projects with a sustainable (economic) development. To avoid unfair competition, a market-based interest rate will be calculated, but the main advantage is the availability of long term funding for major investments.

In the final report "Nieuwe kaders, Nieuwe kansen", the 'Wijers' commission (June 2002) advised that institutions like Korpodeko, Feck, OBNA, NIB Capital and other financial (development) institutions should merge into the "Herstelbank" to be founded. The founding of the "Herstelbank is still up for political decision making.

In November 2002 the Executive Council of the Island Territory of Curaçao approved the founding of the Curaçao Economic Participation Fund (C.E.P.F.) to support important but high-risk economic projects to accelerate economic recovery and stimulate the tourism sector as the engine of economic growth. The CEPF consists of all kinds of local financial institutions, representatives of the business community and wealthy individuals. At the moment of writing the following financial structure of the fund is known: An own fund of ANG 120 million that will be partly brought in by developers and partly by the CEPF. This own fund is meant to attract ANG 90

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million in extra funds, partly from at local investors and financial institutions and partly from the Island Territory of Curaçao. The CEPRF will compensate a minimum interest of 4% for obtained private funding. In November 2002 the Island Territory of Curaçao already approved ANG 20 million from the 2003 budget.

The CEPF will be accommodated in KORPODEKO, but will be managed as a separate fund. An investment commission will consist of representatives of the private and the public sector, and the Central Bank will supervise the CEPF.

3.2.2.3 Stakeholders and other involved parties

- Central Bank of the Netherlands Antilles (Bank van de Nederlandse Antillen).
- Local commercial banks / other financial institutions
- Chamber of Commerce / Business Association Curaçao (VBC)

3.2.2.4 Other relevant activities

A group consisting of, among others, the Curaçao Chamber of Commerce & Industry, UNA and APNA (pension fund) is working on the founding of a Dutch Caribbean Stock Exchange in Curaçao. At the end of 2002 a pre-agreement will be signed between the involved parties. However, it is still uncertain when the operational stock exchange will be active.

With regard to its monetary policy and supervisory tasks, the Central Bank takes into account the consequences for competition.

3.2.2.5 Available background information, reports and policy papers

- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997) (1997)
- National Decree No. 66 of May 25 2000 (2729/AJZ) concerning establishment Capital Market Flexibilization Committee.
- Report of the Committee for National Recovery Plan (Rapport van de Commissie Nationaal Herstel Plan) (1999)
- Department of National Recovery and Economic Affairs (8 February 2000), *Decision document*, Curaçao
- Coalition Agreement 2002-2006
- Final Report for Bank for Economic Recovery (See Eindadvies Herstelbank in 'Nieuwe kaders, Nieuwe kansen' Eindrapport van de Werkgroep Uitvoering Samenwerkingsrelatie Nederlandse Antillen – Nederland)
- Coalition Agreement (Regeerakkoord 1999-2002)
- Coalition Agreement (2002-2006)

3.2.2.6 Indicators past years

Table 1 Indicators past years

<i>Interest rates</i>	Dec. 1999	Dec. 2000	Dec. 2001	Aug. 2002
Treasury paper 3 months	6.15	6.15	6.15	4.25
Treasury paper 6 months	6.30	6.30	6.30	4.75
Treasury paper 12 months	6.76	6.76	6.76	6.00
Government bonds	8.75	9.00	9.00	7.63
Passbook savings	3.55	3.77	3.67	3.61
Time deposit. 12 months, f.10.000	4.93	4.82	5.12	5.98
Mortgages	10.73	10.56	9.98	9.57

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Current account overdrafts	10.74	9.55	10.48	10.30
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Source: selected monetary figures BNA

3.2.2.7 SWOT Analysis

A SWOT Analysis is not presented but, characteristics of the Capital Market are presented in paragraph 2.1

3.2.2.8 Critical success factors

- The development of a competition policy (see "Competition Policy")

3.2.3 Planning subsector

3.2.3.1 Objectives and content of subsector program

Subsector Objective(s)

The objective of the capital market policy is a better functioning capital market in terms of:

- A market where supply and demand meet
- More adequate availability of capital at lower costs.
- Efficient movement of capital
- An interest rate that reflects of demand and supply
- Better choice for customers and better service
- Efficient payment system (for example, reducing administration costs)

3.2.3.2 Desired future development of indicators

It is difficult to provide desired future development indicators. The Capital Market Flexibilization Committee will investigate the capital market and will provide possibilities and desired future developments of indicators in their final report.

3.2.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

When requested, the Government of Curaçao will contribute to the Capital Market Flexibilization Committee by supplying a member.
The DEZ will also advise the Executive Council of the Island Territory of Curaçao on capital market developments.

3.2.3.4 Assumptions and risks

Concerning the Capital Market Flexibilization Committee, it is important to cooperate with the Central Bank because they are the most important institution with regard to capital market information and regulation. Also important is the composition of the committee because as it is difficult to get capital market specialists in the Netherlands Antilles.

3.3 Competition policy

3.3.1 Summary

Many economic sectors in Curaçao can be characterized by a lack of sufficient competition, although the flexibilization of the product markets, the labor markets and measures to reduce red tape, all contributed to a more competitive environment. At this moment Curaçao has no clearly defined competition policy. The installation of a competition authority and drawing up a competition law are necessary to ensure that competition forces will be allowed to work appropriately.

3.3.2 Description and analysis subsector

3.3.2.1 Characteristics of the sector

The stimulation of competition and, more generally, a competition policy is an important tool to stimulate economic growth. Competition will ensure that goods are sold at competitive prices and will ensure that scarce resources such as labor and capital, will be put to their right use; it thereby increases the production of a country. It also stimulates innovative activities and thereby stimulates the economic growth of a country and the prosperity and well being of its population.

On the one hand, the current competition situation in Curaçao shows that many product markets are heavily regulated. On the other hand, some highly concentrated market structures with a few dominant suppliers have had negative impacts as well.

The product market is regulated through three policies. Firstly, through the existence of a market protection regime which limits the amount of foreign competition on the domestic market. Secondly, due to the fact that many specific markets are exploited by state monopolies, (such as electricity, water and many segments of the transport sectors) which excludes any price competition. Thirdly, markets are regulated by the price policy of the government. The government sets maximum prices for a set of basic requirement goods (food) and also determines prices for other items such as in health care, public transport and insurance.

The current business establishment policy (Vestigingsbeleid) puts restrictions on what type of companies can start in the island and especially puts restrictions on who can start a company here (limitations for foreigners). The procedures that companies have to follow to get an establishment permit can be described as stringent and laborious. The existence of red tape and administrative barriers in general in Curaçao results in unnecessary costs for companies when they apply for permits and when they have to comply with rules. These costs can discourage foreign entrepreneurs from investing here and can thus limit the amount of competition on the local market.

Highly concentrated market structures can be distinguished in many markets. Examples are banking and oil distribution. These concentrated structures reduce the amount of competition on these markets. Please note that only abuse of this market power, if any, would create an undesirable situation. Market power in itself is not necessarily harmful.

A bottleneck with regard to the stimulation of competition is the absence of a Competition Authority and a specific competition law. At this moment unfair or unjust market behavior aimed at limiting competition cannot be dealt with. The small size of the economy prevents the one-on-one implementation of European or US style competition policies. The special characteristics of a small sized island economy have to be taken into account. Therefore, policy experiences of other Caribbean islands need to be studied.

3.3.2.2 Government policy with respect to the sector

The government of Curaçao wants to stimulate competition. The government realizes, however, that in certain markets there is only room for one main player, or that not in all sectors market forces can completely function; so full competition is not feasible everywhere. To supervise the appropriate working of market forces the installation of a competition authority is necessary.

To ensure that the state monopolies (in particular when being privatized) will not abuse their monopoly power, an independent Regulatory Board will be installed. The current policy intention is to launch this Regulatory Board in the first half of 2003, of which in the first instance the regulatory tasks will be limited to the telecommunication, utilities, airport and oil distribution sectors. In a later phase, the transfer of other regulatory tasks of the government (such as price control of some 'first necessity' products, in the health sector, in the harbor, or in the public transportation sector) will be considered. The current structure of the future Regulatory Board is such that after three years of price regulation, the board can abandon the price regulation and replace it with less restrictive competition policy instruments. This is considered to be a first step towards less 'regulating policy' and more 'competition policy'. A full expansion of a Regulatory Board into an authority with both regulating and competition enforcing tasks, is being planned.

The procedure to establish a Regulatory Board consists of three phases:

1. Creation of a legal base (whereby our Constitution and ERNA need to be adapted) in order to establish an independent form of administration (Zelfstandige Bestuurlijke Organisatie), which enables delegation of authority and tasks to this body. (This is being discussed by Parliament)
2. Decision-making on the structure, organization and approval of the "Instellingsverordening" of a Regulatory Board, i.e. the Ordinance establishing it. (It is being prepared by the relevant government bodies responsible for finalizing the "instellingsverordening" and drafting of an "opdrachtslandsverordening", i.e. a national ordinance laying down terms of reference)
3. Implementing of sector specific legislation for those sectors that are being regulated by the Regulatory Board (telecommunication, utility, harbor, airport and fuel). (BC has approved a policy document regarding electricity and water in September 2002. Regulatory legislation regarding the airport is being drafted and will be the authority of the Regulatory Board. Parliamentary approval of the New Telecommunication Act will result in transferring of the authority of the Minister of Traffic and Transportation with regard to telecommunication to the Regulatory Board.)

A fully equipped regulating / competition authority will have to pay attention to consumer rights. Currently there is no legislation for consumers who want to file a complaint about the quality of products or services of suppliers.

Several recent policy developments to increase competition are:

- The decision to phase out the market protection regime in five years. This will lead to increased competition from foreign producers and will stimulate the restructuring of the economy to activities in which it has a comparative advantage. (See "Trade Policy")
- The computerization of the process of obtaining establishment permits will reduce the waiting time for obtaining such a certificate and will encourage foreign investors to invest here and thus will stimulate competition. (See "Public Sector Efficiency")
- The abolition of the requirement to have part of the shares of a newly established company in local hands
- The establishment of an Economic Development Board, which intends to serve as a one-stop investment shop for foreign investors, actively bringing in foreign investors will lead to more competition on the local market.
- The privatization of state-owned companies. (See "Privatization Policy")

3.3.2.3 Stakeholders and other involved parties

- Department of Economic Affairs Curaçao (Dienst Economische Zaken, DEZ)
- Department of Economic Affairs N.A. (Directie Economische Zaken, Depez)
- Department of General and Legal Affairs (Algemene en Juridische Zaken, AJZ)
- Business community in general

3.3.2.4 Other relevant activities

The introduction of more competition fits in well with the worldwide trend in which markets are becoming more liberalized and deregulated and economies are becoming more flexible and open. International organizations such as the OECD (Organization for Economic Cooperation and Development) and the World Bank have investigated the subject of regulation and competition in detail. These studies have shown that countries that have adopted a competition policy have enjoyed higher growth rates, higher levels of production and lower prices.

3.3.2.5 Available background information, reports and policy papers

- Policy Matrix (IMF Memorandum on Economic Policies) (2000)
- Urgency Program (Urgentieprogramma Curaçao 1999-2003) (1999)
- Coalition Agreement Central Government (Regeerakkoord 1999-2002) (1999)
- Report of the Commission National Recovery Plan (Rapport van de Commissie National Herstelplan) (1999)
- Paper on Competition Policy (Notitie Mededingingsbeleid) Department of Economic Affairs Curaçao (2001)
- The Working of Markets and Regulation (Marktwerving en regulering) Department of Economic Affairs the Netherlands (1995)
- Paper on Nulmeting, Department of Economic Affairs Curaçao (2001)

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3.3.2.6 Indicators past years

There are several useful direct and indirect indicators to measure the degree of competition, for example so-called concentration-ratios that measure the market share of the largest producer(s). However, the lack of adequate data restricts the measurement of the degree of competition in Curaçao. Indicators that more indirectly indicate the development of the competitive situation are the price-level and the price-changes in the various industries. A specific price research was conducted in the markets with protective tariffs.

Table 1: Price changes per product category

Price change (%)	1999	2000	2001	2002*
Food products	+5.5	+3.0	+4.4	+1.6
Beverages & tobacco	+6.4	+6.7	+0.7	-0.4
Clothing & shoes	+3.6	-1.5	-0.9	-1.8
Housing	+5.0	+0.7	+0.3	+0.9
Home furnishing	+0.1	+0.1	-0.3	-1.2
Health sector	+3.8	+2.3	+7.7	+0.7
Transportation & communication	+1.4	+5.9	-1.1	+3.0
Recreation	+1.3	+0.6	-1.7	+0.2

* January – June

Table 2: Price changes for products that have protective tariffs (percentages represent the share of the companies that raised or lowered their prices/margins or let them unchanged)

Price change 2001 – 2002*	Unchanged	Up	Down
Import-price / cost-price local manufacturers	10%	5%	85%
Cost-price supermarkets	50%	10%	40%
- From local manufacturers	81%	5%	14%
- Imported	37%	14%	49%
Selling price supermarkets	49%	24%	27%
Margin supermarkets	65%	28%	7%

* Based on field research in May 2001 and May 2002; in this period the economic tariffs were lowered by 30%, which – in a highly competitive situation – would put downward pressure on prices and margins

More specific analysis of price data would be necessary in order to measure the effect of (the lack of) competition.

3.3.2.7 SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Free market economy 	<ul style="list-style-type: none"> • Small scale economy
Opportunities	Threats
<ul style="list-style-type: none"> • Competition law • Regulatory board • Deregulation of entry rules 	<ul style="list-style-type: none"> • Influence of special interest groups

Strengths

Although some sectors are heavily regulated, Curaçao has a market economy where private sector activities are common and stimulated.

Weaknesses

The small scale of the Curaçao economy almost automatically means that in many sectors the number of suppliers is limited.

Opportunities

The policy principles of regulating when necessary and using a competition law where market power is abused are widely accepted and have become common practice in many countries, also in the Caribbean. Curaçao can benefit from the knowledge and experiences in other countries and islands. Deregulation for establishing companies and easier entry for foreign companies can improve the level of competition.

Threats

More competition and taking action upon market power abuse can meet resistance from special interest groups.

3.3.2.8 Critical success factors and preconditions

- Curaçao misses the knowledge and experience to install a competition authority and is, therefore, dependent on technical expertise in this field from abroad.
- For the introduction of the laws and other judicial matters it is dependent on the Central Government.
- Quick installation of a joint working party of the Central and the Island Governments to develop proposals regarding competition policy

3.3.3 Planning subsector

3.3.3.1 Subsector objectives

The objective of competition policy is a dynamic and competitive economy, which can flexibly react and adjust itself when it is confronted with external shocks or any imbalances and in which unfair market behavior is properly dealt with so that consumers can reap the benefits of such an economy.

3.3.3.2 Desired future development of indicators

As mentioned above no specific indicators for the level of competition are available. In terms of price development – as an indirect indication of the functioning of competitive markets – price changes in the various industries should never exceed the development of the costs of the used input (materials, labor, et cetera). An increasing level of competition should be reflected in the margins of the suppliers of goods and services.

As in the specific case of the sectors with protection tariffs, the continuation of the decreasing economic levies, and thus the increasing level of competition, are targeted to reflect in the price changes as seen in Table 3. This applies to the years 2003, 2004 and 2005. In the year 2005 the economic levies will have been phased out.

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Table 3: Targeted price changes for products that have protective tariffs (percentages represent the share of the companies that will raise or lower their prices/margins or let them unchanged) in each of the coming three years.

Price changes in 2003, 2004 and 2005	Unchanged	Up	Down
Import-price / cost-price local manufacturers	30%	10%	65%
Cost-price supermarkets	30%	10%	60%
- From local manufacturers	30%	10%	60%
- Imported	30%	10%	60%
Selling price supermarkets	30%	10%	60%
Margin supermarkets	75%	0%	25%

3.3.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- Annual price research in the markets with protective tariffs in 2003-2005 (Department of Economic Affairs Curaçao)

Policy actions Others

- Installation of a joint working party (Central and Island) for competition policy (Department of Economic Affairs N.A., Department of Economic Affairs Curaçao)
- The introduction of a Competition Authority and the introduction of competition legislation in 2004 (Central Government and Island Government of Curaçao)
- Stimulation of stronger representation of consumer interests (Department of Economic Affairs Curaçao)
- Installation of the 'Regulatory Board' in 2003 (Central Government and Island Government of Curaçao)

3.3.3.4 Assumptions and risks

- Dependency on the Central Government in formulation of competition policy and a competition law, as well as the installation of a Regulatory Board / Competition Authority
- Lack of specific knowledge on the island concerning competition policy and competition law
- Resistance of some vested interests in the private sector, whose dominant market position can be affected by a competition law and a Competition Authority

3.4 Trade policy

3.4.1 Summary

The Netherlands Antilles is currently reforming its trade regime. The process of phasing out the market protection regime will be continued the coming years to take optimal advantage of the opportunities globalization offers. The Netherlands Antilles wants to become a flexible, open economy that is outward oriented. To this end it wants to improve and strengthen its trade relations with the region and the world. Its most important short-term objective is to become an independent member of the WTO.

3.4.2 Description and analysis subsector

3.4.2.1 Characteristics of the sector

To enhance the export opportunities of companies and stimulate competition within the domestic economy the trade policy of a country is an important enabling instrument to promote economic growth.

The trade policy of the Netherlands Antilles has two dimensions. Firstly, there is the internal trade policy, which for the last two decades has been mainly characterized by a market protection regime. Secondly, there is the external trade policy, which is characterized by the trade relations it has with other countries and islands.

A market protection regime was introduced in the 1970's in Curaçao and consisted of economic levies, import bans and quota regulation of imported goods. Economic levies (additional levies on top of regular import tariffs, per unit of the product or as a percentage of the CIF value) were imposed on the imports of 36 product groups that were also manufactured locally.

The Netherlands Antilles has signed trade agreements with many countries on a bilateral basis. Most of these agreements originate before the year of 1970. The Netherlands Antilles is currently no independent member of the WTO, as the Kingdom of the Netherlands as a whole is a member-state. It is an associated member of the ACS, the Association of Caribbean States. Within the arrangements of the OCT rules it has some preferential rules to export to the European Union.

3.4.2.2 Government policy with respect to the sector

The government currently has no agreed trade policy; it has, however, a clear objective how this policy should fit in its overall economic policy stance. That is an open and flexible economy with minimal restrictions on the flows of trade and services, which is outward oriented.

Although economic affairs are the responsibility of the island territories, the trade policy of the Netherlands Antilles as part of the international relations of the country is designed by the central government. However, the island government of Curaçao is consulted on the design and direction of a new trade policy. The island government

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will remain involved in this process in order to promote the interests of the island territory.

At the end of the year 2001 the Council of Ministers of the Netherlands Antilles approved the discussion paper "Netherlands Antilles Foreign Trade Policy" (Bureau of Foreign Affairs, Department of Economic Affairs N.A., Department of Economic Affairs Curaçao) as the framework for its policy. It is the intention of the central government to fundamentally revise the current policy by acquiring independent membership of the WTO and by entering into new trade-relations based on the principle of 'open regionalisation' as the focal points of new policy. On which countries or trading blocks these efforts should concentrate, is being analyzed.

In the year 2000, the Central Government has adapted and reformed its internal trade policy to take advantage of the opportunities that globalization offers. In this respect it rescinded the import bans and the quota regulation, which were aimed at protecting local manufacturers against foreign imports. The market protection regime is assessed as being outdated. It has hampered development of the industrial sector, other sectors and the economy as a whole. With regard to the economic levies, a phasing out in five years was agreed upon. As of today, the levies have been reduced by 45% and in the next 3 years further reductions will follow. The protective regulations for some agricultural products still remain in place.

The breakdown of market protection requires a transformation process of the local producers. To inform the industrial sector about the future economic environment the paper "Kadernota Afbouw Marktprotectie" is available.

The policy of the Netherlands Antilles is to strengthen and improve its trade relations with existing partners and to find new ways to participate in trade blocs, for example in the Wider Caribbean Region (i.e. CARICOM, ACS and CBTPA). On a global level, participation in WTO as an independent member is essential. Thus the most important short-term objective is for the Netherlands Antilles to become a full-fledged independent member of the WTO, so that it can apply for a differential treatment like other developing countries.⁴ With the current WTO membership as part of the Kingdom of the Netherlands, the Netherlands Antilles cannot apply for differential treatment. Since 1996 the trade policy of the Netherlands Antilles has been based on the objective that all policies it designs and agrees on should be focused on this objective, i.e. WTO compliance. A major obstacle to independent membership of the WTO, besides the necessary implementation of new trade laws and the restructuring of old trade laws, is that to date the Netherlands Antilles does not have an approved new tariff scheme. The current tariff scheme was approved in 1947. The adoption of WTO compliant trade laws has the benefit of offering instruments to protect producers against unfair competition and consumers against low quality products, within the boundaries of international law. These trade defensive instruments include, among other things, anti-dumping regulations, safeguard measures, sanitary and phyto-sanitary regulations. In September 2002 the Parliament of the Netherlands Antilles approved legislation which implements article VII of GATT 1994 concerning customs valuation. The legislation also includes the implementation of the

⁴ One of the advantages the NA then has, is, for example, the longer time horizon with which it can implement procedures that are enforced by the WTO.

Harmonized System for the classification of goods. Entry into forms of this legislation is targeted for January 1st 2003.

In addition the Netherlands Antilles want to reach a free trade agreement with Aruba covering the free movement of goods. Already in 1986, both countries expressed their desire to reach such an agreement, but have not implemented it yet.

Regarding the preferential arrangements with the European Union and North America which the Netherlands Antilles have access to, respectively the OCT (Overseas Countries and Territories) and CBI (Caribbean Basin Initiative) arrangements, it understands that these agreements will become less beneficial as time passes by. In part this is due to the general trend in the reduction of tariffs in the world. However, in the short term the Netherlands Antilles want to take optimal advantage of the opportunities these agreements offer. In September 2002 the Netherlands Antilles assumed the chairmanship of the association of the involved OCT's, in order to ensure the benefits of the OCT agreements

As an associated member of the Association of Caribbean States (ACS) the Netherlands Antilles plans to join the CPT initiative (Caribbean Preferential Tariff) to promote and increase interregional trade flows. The ACS membership includes countries such as Venezuela, Mexico, the CARICOM countries, Panama, Cuba and the Dominican Republic, among others. In the longer term initiatives will be undertaken to participate in the FTAA (Free Trade Area of the Americas).

3.4.2.3 Stakeholders and other relevant parties

- Department of Economic Affairs Curaçao (Dienst Economische Zaken)
- Directorate of Economic Affairs N.A. (Directie Economische Zaken)
- Directorate of Foreign Affairs (Directie Buitenlandse Betrekkingen, BBB)
- Business community (Curaçao Exporters Association etc.)

3.4.2.4 Other relevant activities

The ECLAC (Economic Commission for Latin America and the Caribbean) /CDDC (Caribbean Development and Cooperation Committee) has, at the request of the Antillean Government, analyzed the pros and cons of accession to Caricom. The conclusion was, it could be useful to enter a Free Trade Arrangement with Caricom in view of the impending creation of the FTAA and the need to get a first shot at the regional market. Furthermore, the World Bank was approached by the Netherlands Antilles to investigate what future trade agreements would be most beneficial to the country.

3.4.2.5 Available background information, reports and policy papers

- Kadernota Afbouw Marktprotectie (Policy framework reduction market protection) (Department of Economic Affairs N.A.) (2000)
- Foreign Trade Policy Netherlands Antilles (Bureau of Foreign Affairs, Department of Economic Affairs N.A., Department of Economic Affairs Curaçao)
- Internal papers DepEZ, BBB (1998, 1999, 2000)
- Regiobeleidsdocument (Regional policy document) (1998)
- Notitie Buitenlandse Belangenbehartiging (paper Governance of Foreign Interests, BBB) (1996)

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- The Netherlands Antilles: Trade and Integration with Caricom, The Economic Commission for Latin America and the Caribbean (ECLAC)

3.4.2.6 Indicators past years

Since Curaçao is one of the five Island Territories of the Netherlands Antilles, no specific Balance of Payments (BOP) is compiled. Nevertheless, the BOP of the Netherlands Antilles gives a good indication of trade flows of Curaçao, where Curaçao forms 70-75% of the Netherlands Antilles economy.

Table 1 Balance of Payments Netherlands Antilles*

	2000	2001	2002-I **
Current Account	-128.3	-269.6	-37.5
Trade Balance	-1,838.7	-1,943.3	-493.3
<i>Merchandise exports</i>	1,168.6	1,140.6	228.3
<i>Merchandise imports</i>	3,007.4	3,083.8	721.6
Service Balance	1,604.6	1,609	464.9
<i>Transportation balance</i>	150.3	155.8	47.1
Tourism balance	874	875.7	306.4
<i>Other services balance</i>	580.3	577.6	111.5
Income Balance	38.0	29.5	-8.5
Current Transfers Balance	67.8	35.1	-0.6
Capital and Financial Account	68.7	162.9	26.2

* On transaction basis

** First 3 months 2002

Source: Central Bank of the Netherlands Antilles, quarterly bulletin 2002, III (page 92, table 1.8 and 1.8 A)

3.4.2.7 SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • OCT and CBI arrangements • Abolishing protection 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Trade deficit • No trade policy
<p>Opportunities</p> <ul style="list-style-type: none"> • WTO membership • ACS associate membership • Worldwide free trade agreements 	<p>Threats</p> <ul style="list-style-type: none"> • Technical capacity government • Lack of export minded private sector • Protection regimes in the region

Strengths

The current preferential trade agreements with the European Union and the United States still offer export opportunities. As it comes to the OCT, this refers in particular to the rice and sugar sectors. The phasing-out of the market protection economic tariffs is stimulating trade, both in forcing local manufacturers to transform into export focused companies, resulting in more choice for customers due to increased imports of cheaper and also higher quality products.

Weaknesses

The current deficit of the trade balance concerning goods illustrates the more inward-looking policies and business attitudes of the last two decades.

The fact that a modern trade policy has not materialized yet, hampers the stimulation of trade, especially within the region.

Opportunities

Independent membership of the WTO will offer legal possibilities to protect producers against unfair competition and consumers against low quality products.

These trade defensive instruments include, among other things, anti-dumping regulations, safeguard measures, sanitary and phyto-sanitary regulations.

Furthermore, a WTO-approved tariff schedule will offer future negotiation options for better bilateral trade treaties. Associate membership of the ACS offers opportunities for more favorable tariffs within the extended Caribbean region

In general, the globalization of trade, and in particular the future Free Trade Area of the Americas (FTAA), will open up markets for more trade activities for the Netherlands Antilles.

Threats

As a small country, maintaining foreign trade relationships and reserving negotiating capacity, lays a big burden on the scarce government funds and human capital.

The inward looking focus of the last decades has created a business attitude that was not focused on exports of goods and services. This has to change in order to take full advantage of growing foreign trade possibilities. Trade policies of countries in the region such as, for example, in Venezuela can continue to be protective in terms of high tariffs and non-tariff barriers.

3.4.2.8 Critical success factors and preconditions

- Curaçao cannot formulate and implement its own trade policy; it is dependent on the intentions and priorities of the Central Government
- There is relatively little specific know-how on trade issues, neither in the Central Government, nor within the insular Government
- Willingness in the private sector to change to export oriented businesses is essential in order to increase trade and support a renewed trade policy.

3.4.3 Planning subsector

3.4.3.1 Subsector objectives

The objective of a trade policy is to stimulate export activities and competition on local markets, to improve the efficiency of resource allocation, and it should be beneficial to consumers and producers in terms of both lower prices and a wider variety of goods.

3.4.3.2 Desired future development of indicators

Table 2 Indicators for trade policy

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	2003	2004	2005	2006
Phasing out of market protection (economic levies)	-30%	-10%	-5%	--
Current account deficit improvement	5%	5%	5%	5%

3.4.3.3 Identification and analysis of all relevant activities and projects to be implemented

- The abolition of the market protection regime (Central Government)
- The negotiation of an approved WTO tariff scheme (Department of Economic Affairs N.A.)
- The adoption of trade laws that are in accordance with WTO guidelines (Central Government)
- To become an independent member of the WTO within the next 5 years (Central Government).
- To develop a consistent outward oriented trade policy and to analyze which favorable trade relations need to be sought (Central Government and Department of Economic Affairs Curaçao)

3.4.3.4 Assumptions and risks

Developing a trade policy, negotiating a WTO tariff scheme, accession to regional organizations or initiatives, seeking bilateral trade relations, are all activities that require know-how and human and financial resources. At the moment the know-how and the resources for the development and implementation of a modern trade policy, at both levels of the government, are not sufficiently available.

3.5 Export policy

3.5.1 Summary

Generally, one of the main forces behind the economic growth performance of a country has been the export-mindedness of a country. For a variety of reasons Curaçao has had a poor merchandise export position in the past. These include the lack of a clear export policy, the existence of a market protection regime which led to inward looking producers and insufficient incentive for high-quality and competitive merchandise, the lack of incentives to stimulate export activities, high direct input costs, high transportation costs and the presence of high trade barriers in the region.

3.5.2 Description and analysis subsector

3.5.2.1 Characteristics of the sector

In a world where countries are becoming more and more integrated, countries that have adopted an outward oriented policy have been better able to reap the benefits this process brings. It is, therefore, of vital importance for a government to have a clearly defined export policy. Especially for Curaçao, which, as a small island, is dependent on the world economy for a large part of its imports, a stimulating export policy is important both to earn foreign exchange and to create employment.

In this part we will concentrate on the export of goods, which can mostly be attributed to the industrial sector and the E-zone. In the various subsector programs attention will be paid to the services sectors that are regarded as export sectors, such as tourism, the financial services sector and the harbor.

In 2001 Curaçao exported a total amount of 1,140.6 million ANG in commodities. In 2000 this was 1,168.6 million ANG, which is a decrease of 2%. The export of merchandise consists mainly of general merchandise (58.8%) and goods procured in ports (31.6%); these are percentages for 2001 (source: Central Bank of the Netherlands Antilles, quarterly bulletin 2002, III; page 92, table 1.8). The major trade partners of Curaçao in terms of exports are the European Union, especially the Netherlands, and the Caribbean.

3.5.2.2 Government policy with respect to the sector

As of May 2002 the Island Territory of Curaçao has developed an export policy, but the Executive Council has not formally approved it yet. This policy focuses in an integral way on the various factors that should contribute to improvement of the export climate for entrepreneurs. Hereby a difference can be made between the more macro-economic factors and more specific micro factors. On the macroeconomic level the policy tackles problems regarding the tax system and grants of permissions, labor productivity, a more flexible labor market. And on the microeconomic level the point of improvements are: the customs, the tax on export profit, and implementation of the TEMA project. The export policy provides recommendations and formulates action points that actually contribute to the increase of export of goods and services. One of those action points is the set up of an Export platform where the government as well as the business community is represented in order to give shape to the close collaboration between these two parties, which is greatly needed to increase the

export. At present this Export platform still functions on an informal basis. The formal structure of the group has to be decided upon by the participants and also the government has to recognize the Export platform as an advisory organ of the sector and its recommendations.

Netherlands Credit Company (NCM) and Gerling formed NCM-Gerling at the end of 2001. It offers a complete package of credit insurance and financing solutions to companies in every branch, from small business to multinationals. The introduction of this export credit insurance in Curaçao made it possible for organizations to insure themselves against commercial and political risk that can be encountered during export activities. Because of this, a major obstacle that used to impede the development of export in the past has been solved.

3.5.2.3 Stakeholders and other involved parties

- Chamber of Commerce and Industry
- Curaçao Exporters Association
- Tax Department
- Department of Economic Affairs of both the Central and the Island governments
- Asosiashon di Industrialistanan Antiyano (ASINA)
- Department of General and Legal Affairs
- Curaçao Port Services

3.5.2.4 Other relevant activities

One of the reasons why local entrepreneurs were not stimulated to undertake export activities, was the market protection regime. Due to the profits companies could make on the local market, it was not necessary for them to adapt an outward oriented policy. Now that the market protection regime will be phased out and eventually abolished, many companies will have to rethink their strategy and engage in export activities. The government of the island territory of Curaçao has adopted a policy to guide the industrial sector during this transformation process. In doing so it no longer wants to discuss a specific industrial policy, but rather an export policy. In the short term, the period 2001 to 2003, it wants to actively help the industrial sector to transform itself to a more export-oriented sector. It wants to achieve this, on the one hand, by introducing incentives to enhance the efficiency of the industrial sector to increase its competitiveness and, on the other hand, by incentives which are directly aimed at increasing the export-mindedness of industrial companies. In the latter respect it wants to adjust the current tax-holiday to take account of companies with a high export potential that are currently only exporting a small part of their turnover. If these companies can show a sound business plan with which they can become an export company, these companies should receive the benefits that a tax-holiday brings. Then they will be offered a direct stimulus to become more export-oriented.

In cooperation with the Netherlands opportunities are being investigated to stimulate exports from the Netherlands Antilles. Broad initiatives that have been spoken of in this context are the undertaking of joint trade missions and joint trade shows.

The Curaçao Exporters Association is an association that protects the interests of export-oriented companies. At this moment it has more than 80 members. Its main purpose is to help companies that want to export, by providing information and

organizing export courses. Next to that it helps companies that encounter obstacles during the exporting process. It also conducts an active dialogue with the government and other institutions about export-related subjects.

The Curaçao Exporters Association and the ASINA are planning to merge in the near future, as a result of which a strong lobby group for exporters can be established.

The Senter, www.senter.nl, is an agent of the Dutch department of Economic Affairs and is responsible for the execution of subsidiary, credit and fiscal arrangements and programs in the following areas; technology, energy, environment, and international collaborations. For Antillean companies the Senter has arranged a number of regulations under which the entrepreneur of Curaçao can make use of the Programma Samenwerking Nederlandse Antillen (PSNA). The Programma Samenwerking Nederlandse Antillen (PSNA) is a pilot project established by the Ministry of Foreign Affairs. It is an intensive and long-lasting commercial collaboration between Antillean and non-Antillean companies. It makes entrepreneurs eligible for financial compensation for conducting feasibility studies and studies that focus on preparation for investment in emerging markets. These studies should stimulate the acquisition of export orders. In January 2003 this regulation will be evaluated and, if necessary, it will be replaced with another stimulating export regulation.

Some of the PSNA projects already approved by the Ministry of Foreign Affairs are the Aloe processing project, the Ecological bungalows at Porto Marie, and the Environmental Service System.

Curacao also exports educational services through two International universities. These are the Caribbean International University and St. Martinus University. These universities targets mainly student from South America, North America and the Caribbean. After graduation the student return to their respective countries. The Caribbean International University offers International Law, Tourism and languages, Marine Science, Social Communications, Health Science, and Engineering. St. Martinus University is a Medical School. Both the universities' goal is to start classes in 2003.

3.5.2.5 Available background information, reports and policy papers

- Economic Policy plan, (Economisch Beleidsplan) Chamber of Commerce and Industry (July 1998)
- Curaçao Export Incentives, Business Development Scheme (July 1999)
- Identification and Analysis of Trade Obstacles (Feb 2000)
- Export Credit Insurance and Export Financing, Chamber of Commerce and Industry (2000)
- Quarterly report Business Development Scheme (several issues till 1999)
- Best in class export incentive, Markstra Consultancy
- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997)
- National Commitment to Export, Considerations towards a better export environment, Curaçao Inc

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3.5.2.6 Indicators past years

	2000	2001	2002-III*
Total export (millions ANG)	1,168.6	1,140.6	960.4
Top two commodities in % of total export			
▪ General merchandise	57.4%	58.8%	47%
▪ Goods procured in ports	31.9%	31.6%	21%

source: Centraal Bank of the Netherlands Antilles, quarterly bulletin 2002, III (page 92, table 1.8)

3.5.2.7 SWOT analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Dutch law and legislation • Stable government • E-zone legislation • Export insurance facility • Stable currency • Multilingual 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Few air and sea connections • Relatively high labor and utility costs • Not full-fledged member of CARICOM/ACS • Limited natural resources • High transportation costs
<p>Opportunities</p> <ul style="list-style-type: none"> • Expansion of Harbor and Airport • Hub to South America and Caribbean markets • Implementation of the Training Project in Exort Management and Awareness (TEMA) 	<p>Threats</p> <ul style="list-style-type: none"> • Outdated customs legislation • Regional competition • Sustained high utility costs • High profit-tax percentage

Strengths

The fact that in Curaçao the same law and legislation is applied as in The Netherlands ensures the entrepreneur of a well functioning law system. The stable government, currency and multilingual population are all positive facts that make the island a reliable port for export. In 2001 the government has introduced the E-Zone legislation. This legislation offers special physical and fiscal facilities to companies. To reduce the commercial and political risks that can be encountered during export, the export credit insurance can be used to minimize these risks.

Weaknesses

Few air and sea connections hamper the increase of export to new markets. The relatively high labor, transportation and utility costs compared to other countries in the region make the total costs of goods and services produced in the island, intended for export, high. The limited availability of natural resources is associated with this. The CARICOM is an organization formed mainly by countries in the Caribbean. There objective is to fortify the ties between the islands and the mainland by providing for the continuance and strengthening of areas of cooperation on levels such as social and economic. The Association of Caribbean States (ACS) is an organisation for consultation, cooperation and concerted action among the countries of the Greater

Caribbean. Its current focus is on cooperation in trade, transport, sustainable tourism and natural disasters. Because Curaçao is not considered a full-fledged member of either CARICOM or ACS it cannot benefit from all agreements, especially in the trade and export area, reached among the members.

Opportunities

The expansion of the harbor and airport and the plans to transform Curaçao into a logistic hub to South America and Caribbean markets improve the connection between Curaçao and other destinations, hereby increasing the ability to export to new and existing markets. The continuance of the Training Project in Export Management and Awareness (TEMA) of ASINA is very important because it provides training courses and awareness campaigns to accelerate the export development process in Curaçao.

Threats

Outdated customs legislation makes procedures tedious and frustrating. As a consequence entrepreneurs can be discouraged to follow all these procedures in order to start export activities. If the utility costs in the island sustain an increasing pattern not only the export industry will suffer, but also the island can encounter strong competition from the region and eventually be surpassed. The increase of the profit-tax from 2% to 34.5% is a direct threat to the export industry, because the companies will have to pay a greater percentage of their profit as tax and, therefore, it discourages the entrepreneurs to carry out more export activities.

3.5.2.8 Critical success factors and preconditions

While the island of Curaçao is responsible for its own export policy, the development of exports is also dependent on several policies that are designed by the Central Government. These include the market protection regime and the trade policy of the Central Government. The phasing out of the market protection regime will stimulate local entrepreneurs to have a more outward oriented view and will thus stimulate the desire to undertake export activities. The trade policy of the Central Government determines to which countries local entrepreneurs can favorably export. Accession to a trade bloc will stimulate exports in a major way. Furthermore the island government of Curaçao should revise its tax system to make it more attractive for entrepreneurs to export.

3.5.3 Planning subsector

3.5.3.1 Subsector Objective(s)

The objective of an export policy is a higher volume of exports and better export possibilities for companies from Curaçao.

3.5.3.2 Desired future development of indicators

Table 1 Indicator for export policy

	2003	2004-2006
Change in export (in terms of %)	+3%	+3%

Source: Curalyse

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3.5.3.3 Identification of all relevant activities and projects to be implemented

Policy actions MEP

Approval tax holidays (together with other involved parties)

Projects MEP

MEP Code	Name	Project owner
MEP Projects in preparation		
MEP B-EP-2	Training Project for Export Management and Awareness (TEMA)	

Policy actions Others

- The approval of the export policy by the Island Territory of Curaçao
- The formalization of the Export Platform

3.5.3.4 Assumptions and risks

Taking the threats and weaknesses from the SWOT analysis into consideration Curaçao's export industry will suffer greatly if no attention is paid to these issues and no solutions are sought for these problems. Such a downturn will have a negative effect on the economy.

3.6 Stimulating entrepreneurship and SME development

3.6.1 Summary

Entrepreneurship in Curaçao is generally regarded as poorly developed (quantitatively as well as qualitatively). In order to stimulate private sector development, the Government of the Island Territory of Curaçao and the Government of the Netherlands Antilles, have launched incentives in order to stimulate micro enterprises (SESNA) and to stimulate training efforts by small and medium-sized enterprises (SMEs)⁵. Other arrangements to stimulate entrepreneurship is the "startersregeling" (an arrangement for starting businesses), which was launched during this year. An overall policy on SME's is to be expected in 2003.

3.6.2 Background

3.6.2.1 Characteristics of the sector

Entrepreneurs in general can bring dynamics and flexibility to the economy. In addition, starting entrepreneurs are regarded as an engine for growth and employment. Table 1 shows in what way the SME sector is responsible for employment in the Netherlands Antilles. The medium enterprises are the biggest employers. They are responsible for at least 70% of the total employment in the SME sector. The number of micro enterprises is high, but still does not create enough jobs. The reason could be that these enterprises can not expand because of the scale of the island.

Table 1: SME and the extent of employment

Size	number	%	employment	%
According to the CBS				
Micro	2705	64	5201	20
Small	430	11	2633	10
Medium	1072	25	18.588	70
Total	4207	100	26.422	100
According to the Chamber of Commerce				
Total companies in 1998	12290			

Source: Business Census 1998, CBS, Chamber of Commerce

In 1998 the Central Bureau for the Statistics (CBS) has done a business counting. The CBS counted 4207 businesses in Curacao. The big companies are excluded in the table above. They form 2% of the total businesses in Curacao. According to the Chamber of Commerce however in 1998 there were 12290 companies in Curacao. In 2003 this has increased till 14405.

Part of the difference between the Chamber of Commerce and the CBS can be explained. The CBS acknowledges that not all "invisible" companies have been

⁵ Small and Medium-Sized enterprises are defined as enterprises employing 50 or fewer persons.

counted. Also a company should have 15 hours of labour on average per week or should have a turnover more than 50.000 guilders per year before the company is registered as a company. The Chamber of Commerce on the other hand counts all the registered companies. However the difference between the two organisations has not been investigated in depth so far.

According to the Chamber of Commerce the private sector in Curaçao in general, and more specific developments in small and starting entrepreneurship, have been weak during the past decade. The reason for this is the deterioration of the economic situation between 1991 and 2001. Although the world economy was growing, Curaçao was and is still suffering from socioeconomic problems. Official figures suggest a relatively large number of new registrations in the commercial register of the Chamber of Commerce. The majority of these new registrations are in the *offshore* sector (1,728 in 1999). In the *onshore* sector there are fewer registrations (1,363 in 1999⁶). In addition, a large proportion of the SME sector is informal⁷.

Especially small entrepreneurs experience high barriers to starting businesses. The availability of financing/equity and the lack of transparency in the system of permits are regarded as major bottlenecks. In addition, there is a lack of 'entrepreneurial spirit' among the local population to start businesses and due to regulation; the business climate – for instance, the functioning of *vestigingsvergunningen*, i.e. permits for establishing businesses – is not considered investor- friendly.

3.6.2.2 Government policy with respect to the sector

Currently, there is no general/overall policy with respect to entrepreneurship in Curaçao; however, there are incentives and specific arrangements for stimulating entrepreneurship. The Department of Economic Affairs Curaçao is currently formulating a policy for SMEs, which aims at a more general/overall policy for the sector. This will be finished in 2003. There are already some incentives in effect. These are launched on the basis of what was needed. They are not based on a certain policy. The aim of the island territory is to stimulate SME and to create "entrepreneurial spirit". In expectation of what policy for SME will come, the following incentives have been effectuated:

SESNA

Small Enterprises Stimulation Netherlands Antilles (SESNA) is a EU fund for stimulating micro enterprises. SESNA will be operational for five years. The fund consists of a non- financial component (courses, training) and a financial component (subsidies, loans). The fund has been operational for the non financial component since 2001. Regarding the financial component still no definitive decision has been taken, although 5 pilot projects have been launched. The effectuation of the financial component depends on agreements between the EU and the development bank (OBNA) in Curaçao about the cost of administration for

⁶ This number is distorted by the large number of businesses that are founded by professionals for tax reasons.

⁷ Business census 1998, CBS

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applications of loans. The funds are from the EU, the private sector and the Island government (ANG 100,000). The total budget is nearly ANG 20 million. The budget for the financial part (loan fund) is ANG 7.3 million and the non- financial part consists of ANG 11.2 million.

'Startersregeling' DEZ

Arrangement for starting entrepreneurs has been operational since the beginning of 2002. This arrangement is meant for everyone who wants to start a business. In November 2001 ANG 1 million was reserved on the Government budget for grants and educational programs. In 2002 ANG 500.000 will be added to this arrangement.

Training Grant Scheme DEZ

The Island Territory of Curaçao has established the Training Grant Scheme (TGS) program to stimulate (through subsidization) training efforts by local small and medium-sized businesses (up to 50 employers), to increase their adaptability and to improve the quality of products and services. The main objectives are product and process innovation, export stimulation and job creation. The Island government has reserved ANG 200,000 for this arrangement.

PUM, i.e. Managers' DEZ

Managers Posting Program (Programma Uitzending Managers) Dutch retired managers support local entrepreneurs against reimbursement of expenses.

ADA DEZ:

Ayudo den Administration

This is an incentive scheme that supports small and medium companies with the administration. This is paid from the DEZ budget (50%) and by Korpedeko (50%). The maximum contribution to an entrepreneur is ANG 3,000.-. A condition is that the entrepreneur should be registered with the Chamber of Commerce.

IntEnt

IntEnt is an organisation in Holland that trains potential entrepreneurs in Holland who want to start a business on Curaçao. After starting the business on Curaçao IntEnt assists with obtaining finance and offers guidance for the first year of operation.

3.6.2.3 Other relevant activities

- The Chamber of Commerce provides information and guidance to (starting) entrepreneurs;
- The institution of a Credit Export Insurance (Export Krediet Verzekering);

2.4 Stakeholders and other involved parties

- Department of Economic Affairs of Curaçao: the department grants the subsidies and is responsible for the outcomes.
- Chamber of Commerce: the chamber provides information to entrepreneurs.
- Fundashon Empresa Chikí Kòrsou (FECK): agency that implements financing arrangements for entrepreneurs up to ANG 150.000. FECK is a tripartite organization that consists of employers, employees and the government
- Korpodeko: this agency implements financing arrangements for entrepreneurs in certain target economic activities.
- OntwikkelingsBank Nederlandse Antillen OBNA (Development Bank): the OBNA consists of the government of all the islands (Nederlandse Antillen) and private organizations. The funds come from the EU and it finances SMEs active in the agricultural sector.
- Commercial Banks
- Asosashon di Empresanan Chikí di Kòrsou (ADECK): ADECK tries to stimulate the cooperation between small entrepreneurs and to promote the importance of the SME.
- Sentro pa Desaroyo di Empresa Chiki Korsou (SEDECK): SEDECK started in 2002 and the aim is to support the government with its small and medium business administration policy and by creating coherence in the SME sector. They provide the entrepreneur with counseling , management training and information about the economy.
- Small Enterprises Stimulation Netherlands Antilles (SESNA): the SESNA is a partnership between the Government of the Netherlands Antilles, the Island Governments, the private business sector and the EU to strengthen the contribution of the small business sector to economic growth and to structural employment generation and consolidation in Curaçao. This fund will be operational for five years. The operation of it was started in 2001.

3.6.2.4 Available background information, reports and policy papers

- SESNA report (2000);
- Startersnota (2000) (memorandum on arrangement for starting entrepreneurs);
- Industrienota (2000) (memorandum policy on industry);
- Memorandum Training Grant Scheme (1999).

3.6.2.5 Indicators past years

Table 2 Indicators past years

	2000	2001	2002
Number of starting entrepreneurs	1403	1440	1480

Source: chamber of commerce

3.6.2.6 SWOT-Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Existing incentives • Foreign exchange • Reliable operations and infrastructure • Highly developed e- law 	<p>Weaknesses</p> <ul style="list-style-type: none"> • The capital market is not functioning properly • A lack of knowledge about how to lead business • The local labour market is not functioning properly • Information does not reach the target group • Low entrepreneurial spirit • High labor and utility costs
<p>Opportunities</p> <ul style="list-style-type: none"> • There are a lot of initiatives • The access to education is organized in a proper way • Low entry barriers for self-employed persons 	<p>Threats</p> <ul style="list-style-type: none"> • Business in the informal sector is high • The small scale of Curaçao • Red tape

Strengths

There are a lot of incentives already existing. The EU provides also funds and knowledge to stimulate the SME sector. Compared with other countries in the region, Curaçao has good facilities.

Weaknesses

A lot has to be done to stimulate the SME sector. There are a lot of incentives existing, but it seems difficult to reach the target group. Knowledge about the SME is required to stimulate it. Also the cost of utility and housing is very expensive. This makes it difficult for micro entrepreneurs to start for themselves. There is also a lack of information about how to lead a business. The financing charges are high to get a loan from a bank.

Opportunities

There are a lot of incentives for entrepreneurs in the SME sector. Access to education programs is available for almost everyone. There are possibilities to get subsidies for education programs. People (self-employed) who want to start a business do not need a permit. There are expectations that cruise tourism will increase again in the period 2004 - 2006.

Threats

There is a lot of business activity going on in the informal sector. Because of the existing red tape some people do not want to start business in the formal sector. The small scale of Curaçao is also a threatening aspect for some investors, especially those who want to grow.

3.6.2.7 Critical success factors and conditions

- The economic situation in Curaçao is important for investors in the SME. According to the Economic Outlook Curaçao 2002, the economy will grow. Also more investments are expected.
- Reduction of red tape (see also section on Public Sector Efficiency); to improve the investment climate for potential investors it is important to diminish red tape;
- No further increase, or preferably decrease, of tax burden and burden of social charges (see section on tax policy);
- Increase export possibilities for SMEs (see section on Export Policy).

3.6.3 Objectives and content of subsector program

3.6.3.1 Subsector objectives

There is no SME-policy yet formulated. The department of economic affairs has made a draft which can be used to formulate a policy. The existing organizations have to work together with the stakeholders to come to consequent policy. The department of economic affairs is responsible for getting all stakeholders/ organizations together to follow the same policy. The aim is also to start with various sorts of communication to reach potential investors. To keep investors in the business it is important to know what the success factors for entrepreneurs are. More study and research of the SME sector will be done in the following period. This year SESNA starts with a working group on every island of the Netherlands Antilles consisting of the Chamber of Commerce, DEZ, OBNA and a SESNA adviser. The aim of this group is to formulate a SME policy for the island of Curaçao.

3.6.3.2 Desired future development of indicators

In table 2 measurable target indicators are formulated for the year 2005. Official figures are not available yet.

Table 3 Indicator for coming years

	2003	2004	2005
Number of starting entrepreneurs	1520	1560	1600

Source: Chamber of Commerce

3.6.3.3 Identification of all relevant activities and projects

Policy actions MEP

The working group which is responsible for the formulation of a policy for SME, will do research in the coming period in order to write the policy.

The Department of Economic Affairs will also do some research on the existing organizations which are responsible for stimulating the SME sector.

Projects MEP

MEP Code	Name	Project owner
MEP Projects being prepared		
B-SE-6	IntEnt	DEZ
MEP Projects being implemented		
B-SE-1	Training Grants Scheme	DEZ

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B-SE-2	PUM	DEZ
B-SE-3	SESNA	KvK/DEZ
B-SE-4	ADA	DEZ/KvK/FECK
B-SE-5	Startersregeling	DEZ/KvK/FECK

3.6.3.4 Assumptions and risks

None

3.7 Innovation and ICT Policy

3.7.1 Summary

Currently, the 'level' of innovation in Curaçao is not satisfactory. To be internationally competitive, it is important that enterprises in Curaçao innovate more. In order to stimulate innovation, the Island Government of Curaçao subsidizes the Innovatie Centrum Curaçao (ICC), which has the task to promote innovation, in particular among small and medium-sized businesses.

Currently, the 'level' of the use of Information and Communication Technology in Curaçao is not meeting international standards, as several studies show. It has been widely accepted that, to achieve any kind of sound and sustainable economic development, ICT has become a critical success factor for all sectors. In order to increase ICT use among private sector organizations, in particular in small and medium-sized businesses, the Island Government of Curaçao instituted the "Curaçao Information Stimulation Plan" (CISP). CISP is an initiative of the Department of Economic Affairs, with the objective of improving the competitiveness of Curaçao by applying information technology efficiently and effectively and so create the possibility of maximizing business income and reducing business costs.

3.7.2 Description and analysis subsector

3.7.2.1 Characteristics of the sector

Consumers would benefit from innovation in terms of higher quality of goods and services, lower prices and a wider choice. Most firms in Curaçao are not aware enough of the necessity of innovating constantly to increase their competitive skills, reach their commercial goals, make their business become more profitable, place their business successfully in the local and international market, and survive and grow. There are some firms in Curaçao that pursue innovation, but mostly innovation in the field of product variation, instead of new or improved products or services. The firms innovate less and imitate more, which leads to saturation of the market.

Firms in the export-oriented sector are stimulated to innovate through the transfer of technology in order to be internationally competitive. In addition the strategic partners that are sought as part of the privatisation process of state-owned companies will bring in a lot of innovative abilities.

Currently, the ICT use of our population is falling behind international standards. 35% of households have access to a computer at home and 22% of all households are connected to the Internet (CBS Census 2002). This figure is low compared to for example the Netherlands, where three out of four people have at least one PC at home and almost 60% of all people have Internet access at home. In the US, 50,5% of households are connected and 65,5% of the total population in the US are computer users. With regard to ICT use by companies, the level of ICT ownership has improved during the past years but the use of internet technology to do business is still low.

With respect to the level of ICT use in comparison to that in other countries, and the degree to which the corresponding targets for ICT use were met, there is still a lot of room for improvement, especially in the following area's:

- The effective use of websites
- The use of on line transactions in doing business
- Integrated ICT use for all business processes
- Ownership of PC should approach 100%, especially among companies with more than 5 employees.
- Use of an ICT Planning
- Introduction and use of new technologies

3.7.2.2 Government policy with respect to the sector

A current innovation policy the Government of Curaçao pursues is the subsidization of the *Innovatie Centrum Curaçao*. The objective of ICC is to promote the distribution and the use of technological knowledge to small and medium-sized businesses in Curaçao. The activities of the ICC are:

- Provide firms with the latest information on innovation in general and specific technologies;
- Organize or help organize training, courses and seminars for firms;
- Help firms with the implementation of new technologies and management systems in the field of environment, hygiene, quality;
- Sell products that help improve capacity of firms (literature, CD-rom, instruction videos).

ICC has been actively promoting innovation for seven years. A case in point is the organization of the yearly 'Innovatieprijs'. On 22 November 2002 the Curaçao Innovation Platform was installed. The platform represents various sectors, such as the government (department of Economic Affaires of the island territory of Curaçao), financial services, industrial, etc. The objective of the platform is to build and maintain an innovative business climate in Curaçao. The first step is to come with a policy to stimulate innovation, this policy will be integrated into the draft innovation policy of the government of Curaçao.

The Government is actively stimulating ICT use in general, through initiatives such as the Curaçao Informatics Stimulation Plan and the establishment of several "Kura Digital" (aimed at stimulating ICT use among people who might otherwise not get in touch with ICT). Apart from that, ICT use in education and government sectors has also been actively stimulated.

Furthermore, on several occasions the government has indicated that it is its goal to become a "knowledge economy" (on a central level in the government agreement 2002-2006 and on an island level by the commissioner of economic affairs). However, an island wide ICT policy has not been formally defined and adopted.

3.7.2.3 Stakeholders and other relevant parties

- *Consumers*: Consumers benefit from innovation in terms of higher quality of goods and services, lower prices and a wider choice;

- *Business sector*: Innovation can increase market share and returns and improve international competitiveness. Innovation in the tourism sector can improve the attractiveness of Curaçao.
- *Government of Curaçao*: Innovation in the tourism sector can help government policy to increase tourism and make tourism one of the driving sectors of the economy. Innovation aimed at the environment (green products) increases (external) demand for locally produced goods and services;
- *Environmental groups*: Innovation is often aimed at the environment, the development of green goods and services.
- *Innovation Centre Curaçao (ICC)*
- *Curaçao Information and Communication Association (CICA)*: CICA is an association of ICT suppliers that looks after the interests of the ICT sector, while trying to maintain and improve its quality. CICA is actively providing advice to the government on ICT policy and is regularly organizing meetings and information sessions on ICT topics.
- *Former Curaçao eCommerce Platform (CeCP)*: The CeCP has been a combined effort of public and private sectors that has been actively working on the improvement of the ICT infrastructure and the conditions for eCommerce. Although this organization will cease to exist in its current form, the plan is to continue the active monitoring of eCommerce conditions by a group of stakeholders that can also provide advice with regard to government policy.
- *Stimul-IT – Curaçao Informatics Stimulation Plan (CISP)*: Stimul-IT was established to execute the projects of the CISP, that are aimed at stimulating ICT use among small and medium businesses, and so contribute to the development of our economy and the improvement of our competitive position. Stimul-IT focuses its efforts on three groups of activities:
 - Providing information about ICT (research about current use and increasing awareness about ICT)
 - Providing policy advice and stimulating the improvement of the ICT-infrastructure
 - Initiating sector-wide ICT projects and activities
- *Small and Medium Businesses*: The Association of Small businesses of Curaçao (Adeck) is working together with Stimul-IT to stimulate ICT use and awareness among small businesses.

3.7.2.4 Other relevant activities

Kura Digital: The government has initiated the establishment of several “Kura Digital”. These are aimed at stimulating the use of ICT in certain neighborhoods where people are expected to have limited access to ICT

3.7.2.5 Available background information, reports and policy papers

- Memorandum of Association of the ICC;
- Knowledge Based Economy (2000), University of the Netherlands Antilles;
- Business plan 2003-2005 of the ICC;
- Samen innoveren, een onderzoek naar publiek-private en private kennisrelaties in Nederland, Ministry of Economic Affairs.
- “Bouwsteen voor een betere toekomst” CICA Manifest, June 2002

- "ICT Perspectives 2002", Curises, Stimul-IT, CICA, Chamber of Commerce, April 2002
- Business plan 2003, Stimul-IT, March 2002

3.7.2.6 Indicators past years

Table 1 Indicators of ICC

	1997	1998	1999	2000	2001
Firms pursuing innovative activities (Participants Innovatieprijs)	n.a.	n.a.	12	18	28
Firms taking services of ICC	40	46	80	114	120
Participants in training, seminars, etc.	110	590	351	418	508

Table 2 Indicators of ICT

Indicators for ICT-use	Current/Past figures
ICT use SME	2000: 50%
Island wide computer use	2001: 35%
Island wide internet use	2001: 22%
Number of companies that offers services or products through the Internet	2002: 10%
Number of companies with a website	2002: 50% of all companies
Number of companies with internet access	2002: 85%

3.7.2.7 SWOT analysis

Strength

- a center on the island that stimulates innovation, the ICC;
- subsidy granted to ICC by the Government.
- Awareness of importance of ICT is increasing in public as well as private sector
- Adequate infrastructure ICT

Weakness

- short of staff at ICC;
- lack of an innovation policy of the Government.
- Lack of an integrated, island wide ICT policy

Opportunity

- cooperation with other countries.
- The government is currently developing an SME policy, making it easier to combine and/or coordinate efforts of different organizations that are all focused on strengthening small and medium businesses.

Threat:

- globalization forces companies to innovate constantly;

- the level of 'high technology' imports against which local enterprises must innovate.
- Curaçao is loosing its relative advantage in the region with regard to ICT infrastructure
- The labor force does not consist of "knowledge workers" nor does the education system educate "knowledge workers".

3.7.2.8 Critical success factors and preconditions

- Tax incentives aimed at stimulating innovation;
- Innovation fund;
- The need of an innovation policy
- Development of an island wide ICT policy.
- Continued support of government for stimulating activities ICT
- Island wide cooperation throughout all sectors and industries in the field of ICT

3.7.3 Planning subsector

3.7.3.1 Subsector objectives

The objective of the innovation policy is to substantially increase the number of firms that innovate on a structural basis.

The objective of the ICT policy is to increase the use of ICT to enable sustainable economic growth. This can be translated into the following goals:

- increase the number of small and medium organizations that use ICT
increase the ways in which ICT is used by organizations
- achieve and maintain a strong ICT-sector that delivers high quality ICT products and services
- create awareness on all levels about ICT as a condition for economic and social development
- develop an island wide ICT policy

3.7.3.2 Desired future development of indicators

- The number of firms that pursue innovation on a structural basis. This is measured according to the participants in the Innovatieprijs;
- The total of firms that make use of the services offered by ICC;
- Participants in training, seminars, information sessions etc. organized by ICC.

Table 3 Future indicators for innovation

	2002	2003	2004	2005	2006
Firms pursuing innovative activities (Participants Innovatieprijs)	37	47	62	80	105
Firms using services of ICC	145	170	200	250	300
Participants in training, seminars, etc.	560	615	680	745	820

Table 4 Future indicators for ICT

Indicator	Target for 2003
Increased ICT use SME	70%
Increased island wide computer use	65%
Increased island wide internet use	40%
Increased number of companies that offer services or products through the Internet	20% of companies with 5 or more employees
Increased number of companies with a website	50% SME
Increased number of companies with internet access	90%
ICT Policy	Developed in 2003
Trust in local ICT suppliers	Increase use of local suppliers for mission critical systems with 25%

3.7.3.3 Identification and analysis of all relevant activities and projects to be implemented

Projects MEP

MEP Code	Name	Project owner
MEP Projects submitted for funding		
B-IP-5	Certificatie voor milieuzorg in hotels op Curaçao	DEZ
MEP Projects in preparation		
C-IP-6	Curaçao Quality Foundation	CQF
C-IP-7	Investors in People	CQF
C-IP-8	Quality Awareness Plan	CQF
MEP Project Idea		
MEP B-IP-3	ICT room	ICC

Projects others

- Conferences and seminars which deal with innovative ideas and thinking (ICC)
- Risk Coverage Project (ICC)
- These are activities that are subsidized by the Curaçao Government (through Stimul-IT) and will be performed in 2003. They provide information about ICT (research about current use and increasing awareness about ICT):
 - Seminars and training sessions
 - News Letters & Website
 - Awareness Campaign for Small & Medium Businesses
 - Research about ICT use
- Other activities, that are mostly still in the planning phase, include:
 - Providing policy advice and stimulating the improvement of the ICT-infrastructure
 - Initiating sector-wide ICT projects and activities

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3.7.3.4 Assumptions and risks

Assumptions	Risks	Explanation
The government and the private sector will continue to support the stimulation of ICT use.	Low	The island council has approved continued financial support for Stimul-IT in 2003. Private sector organizations are still active in CICA and in eCommerce.
Efforts targeted at SME will be combined/coordinated	Low	Several contacts have been made between these organizations and the government is currently developing an overall SME policy

3.8 Public Sector Efficiency

3.8.1.1 Summary

An efficient Public Sector is an important aspect of an enabling business climate. At the moment, one can say there is a paradoxical situation, because on the one hand the government of Curaçao wants more economic activity, but on the other hand there are a lot of regulations, procedures, non-transparent facilities etc. that work against it. Although the Government acknowledges the importance of an Efficient Public Sector, and some projects such as E-Government are being implemented, a lot remains to be done to improve efficiency.

3.8.2 Description and analysis subsector

3.8.2.1 Characteristics of the sector

In the economic recovery of Curaçao, the public sector is expected to focus on the efficient delivery of a specific number of services (particularly health and education), the provision of an economic and social infrastructure which is conducive to private sector development and which protects the welfare of the socially disadvantaged. This requires accountability and transparency in public sector operations and mechanisms for ensuring measurement of efficiency in these core areas of activity. To stimulate and facilitate private sector development and promote the investment climate, the public sector efficiency has to be improved (IDB, 1997).

The following definition of 'Red Tape' is used: Uncertainty and lack of transparency regarding pace and costs of regulations, procedures and facilities that exist between the government and economic activities and actors.

In concrete, the following aspects will be regarded:

1. The procedure and time to get permits: residence permit, license to establish a new business, labor permit and the procedures that have to be followed. Most investors do not have an insight into the many and long procedures they have to follow. These are often time consuming because of the number of government departments that have to look into them, and often even Ministers or Commissioners have to decide on individual requests.
2. Tax holiday facilities. Tax holiday facilities are available for small and medium-sized enterprises. However, usually they do not qualify because of the minimum investment requirement that is being applied. In general, the criteria applied and the length of the procedure delay important investment decisions. The minimum investment requirement for industrial investments is ANG. 250,000 and for tourist investments it is ANG. 1,000,000.
3. Accessibility of the government: both internal communication, between the government agencies, and external communication, between the government and the public, and the level of service-mindedness of public servants is experienced as unsatisfactory.

3.8.2.2 Government policy with respect to the sector

Although the government acknowledges the existence of red tape and some reports have been written on this subject, in practice no coordinated policy has been developed yet. Some policy initiatives have already been started such as, for example, E-government, Good Governance Program and the introduction of ISO 9001-2000.

Several measures concerning “improving business climate” are mentioned in the IMF Policy Matrix. Those measures are concerned with the diminishing of Red Tape and some of them had already been initiated and developed by the Department of Economic Affairs. The IMF matrix acts as a catalyst in this respect:

- Pilot project for electronic application for establishment permit
- Proposal (and implementation of plan) to reduce administrative burden for investors
- Proposal (and implementation of plan) to simplify procedures for establishing a business
- Streamlining of procedures for obtaining an establishing permit for a business
- Proposal for a one-stop shop for foreigners (known as the Curaçao Economic Development Board (CEDB))

In September 1999 the Executive Council of Curaçao approved the IDI⁸ Report on Investment Promotion in Curaçao, inclusive of all its recommendations. Once enabling legislation has been obtained, the CEDB will be created. The aim of CEDB is to facilitate development of economy of Curaçao through investment promotion and international sales promotion programmes and support services. It is recommended that CEDB should have three target sectors initially:

- Tourism;
- Financial, administrative & support services;
- Trading & logistics.

3.8.2.3 Stakeholders and other relevant parties

- Department of Economic Affairs Curaçao (Dienst Economische Zaken, DEZ)
- Chamber of Commerce and Industry Curaçao (Kamer van Koophandel en Nijverheid)
- Business community in general
- Immigration Service

3.8.2.4 Other relevant activities

- Good Governance Program (“Bestuurlijke Ontwikkeling”) and especially an important part of that program: E-government.
- The Chamber of Commerce publishes an investors guide explaining what procedures investors have to follow in order to get the necessary permits.
- Upgrading customs and immigration at the airport (Alterra)

⁸ International Development Ireland Ltd

3.8.2.5 Available background information, reports and policy papers

- Foreign Investments Agency Services (FIAS) report. An assessment of foreign investment environment (2001);
- IMF Policy Matrix (Memorandum of Economic Policies) (2000);
- Curaçao Investment Guide, Chamber of Commerce and Industry;
- Economic Policy Paper (Economisch Beleidsplan), Chamber of Commerce and Industry Curaçao (1998);
- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997);
- Advies inzake Investeringsbevordering, Sociaal-Economische Raad (1996);
- Drawing up an inventory of Red Tape (Inventarisatie Red Tape Curaçao), Department of Economic Affairs Curaçao (1996);
- Policies for private sector development, World Bank (1994);
- A good investment climate: avoid red tape, (Een goed Investeringsklimaat binnen een geordende samenleving: vermijden van red tape op Curaçao), Bureau voor Economische Argumentatie (1989).

3.8.2.6 Indicators past years

There are no registered indicators of the past years.

3.8.2.7 SWOT analysis

<p>Strengths:</p> <ul style="list-style-type: none"> • business services sector is well developed • private mediation in the process of getting permits. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> • lack of a coordinated policy of the Government regarding public sector efficiency.
<p>Opportunities:</p> <ul style="list-style-type: none"> • cooperation with the private sector. 	<p>Threats:</p>

3.8.2.8 Critical success factors and preconditions

- Developing a coordinated policy to improve Public Sector Efficiency.
- Cooperation between the Chamber of Commerce Curaçao, Business Association Curaçao (VBC) and the Government of Curaçao to improve Public Sector Efficiency.
- Installation of the Curaçao Economic Development Board (Bureau Economische Ontwikkeling).

3.8.3 Planning subsector

3.8.3.1 Subsector objective(s)

The objective of policy regarding public sector efficiency is to substantially diminish red tape in order to improve the business climate.

3.8.3.2 Desired future development of indicators

Table 1 Indicators for public sector efficiency (in weeks)

	2003	2004
Request time for establishment permit	8	6
Request time for e-zone status	2	2
Length procedure for tax holidays in weeks	10	10

3.8.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- The department that issues the permits to establish a business of DEZ in has been ISO certificated in 2003. Probably the other departments of DEZ will be ISO certificated in the year 2004.
- Optimization of the department of Economic Affaires of the island territory of Curaçao.
- Streamlining procedures for obtaining an establishing permit for a business by DEZ.
- Project for electronic application for establishment permit by DEZ.
- Facilitation installation of the Curaçao Economic Development Board (Bureau Economische Ontwikkeling).

Policy actions Others

- Installation of the Curaçao Economic Development Board (Bureau Economische Ontwikkeling).

Projects Others

- Basic customers contact center (the call center of the island government).
- Intranet shared services (ISS) for all departments of the island government. This will improve communication between DEZ and other departments.
- Virtual data warehouse (linking databases) of some departments of the island government. With this tool it is easy for the department that issues the permit to establish a business of DEZ to get information about the person requesting the permit. This will shorten the procedure.

3.8.3.4 Assumptions and risks

Investors will go to other countries instead of Curaçao.

3.9 Privatization policy

3.9.1 Summary

The Government of the Island Territory of Curaçao launched an ambitious privatization program in November 1999, in which 19 state-owned enterprises are scheduled to be privatized within a period of two years. The Commission on Implementation of Privatization was installed to coordinate and prepare the privatization of these SOEs. In order to depoliticize the decision-making process and streamline the privatization process, the Government and the IMF agreed that the Island Government of Curaçao would transfer shareholder authority to an independent foundation (Stichting Implementatie Privatisering, StIP). Since the beginning of December 2000 the Foundation has been established and operational. The process of transferring shares to StIP, with the exception of a few cases, has been completed.

3.9.2 Description and analysis sub sector

3.9.2.1 Characteristics of the sector

The share of state-owned enterprises (SOEs) in total production in Curaçao is relatively large. Some of these enterprises are coping with inefficiencies: due to i.a. lack of client focus, monopolistic position, high labor cost, political interference, lack of incentives. The burden of these inefficiencies is often transferred to consumers through high prices and/or low quality of goods and services. For the majority of these SOEs, there is no economic or social motive for government to be responsible for the production of these goods and services. In fact, society as a whole can benefit more from private production of these goods and services. Successful privatization should – among other things – result in benefits for consumers in terms of higher quality, (lower) prices that better reflect economic value of goods and services and a wider variety of goods and services. Higher quality and lower prices are reached through more competitive and more efficient companies after privatization. The Government of the Island Territory of Curaçao recognizes this and has chosen to privatize a large number of currently state-owned enterprises. The Island ordinance of April 26, 2001 regulates distribution of the proceeds of the privatization process, as follows: 40% for debt reductions, 40% for economic infrastructure and 20% for social and health issues.

The original intention of the government with privatization was an outright sale of its shares in the companies to a foreign investor. However, during the process StIP deemed it necessary to address the privatization of each enterprise on a case-by-case analysis. The goal of the privatization process often became seeking a strategic partner for the state-owned company. By means of a tender process consultant firms were invited to conduct an analysis of the state-owned company. A strategic analysis identifying several privatization options and the best alternative to privatize each specific enterprise has been conducted. In practice this will mean sacrificing short term revenue maximization in favor of immediate capital infusion, while transferring the highest level of risk to the private sector. The expectation is that in the long term this will result in greater macroeconomic benefits and job creation and sustainable economic growth.

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After a round of consultations with the Board of Directors and Board of Commissioners on the results of the strategic analysis, StIP submits its advice on the preferred option to the shareholder for final decision making. The following step is that for each specific company to be privatized a tender process is held - to assure an acceptable degree of competitiveness - to choose the financial and legal advisors to advise StIP and help guide the privatization process. Based on the ratio Action plan, time table and price StIP chooses the consultant that best meets their required criteria. The Action plan for most of the privatizations follows a standard procedure; creation of a long and short list of potential investors, execution of all due diligence requirements, asset valuation, preparation of the transaction documents and the selection of the highest bidder.

3.9.2.2 Government policy with respect to the sector

In 1999 the Island Territory of Curaçao launched an ambitious privatization plan in the 'Urgentieprogramma' with the coalition agreement. In the 'Urgentieprogramma' the privatization of the following state-owned enterprises (SOEs) within two years was expected:

Table 1 Status of State-Owned Enterprises October 2003

	Name	Activity
	SOE's Privatized/Strategic partner acquired	
1	WTC Exploitiemaatschappij N.V./WIC ontwikkelingsmaatschappij N.V.	World Trade Center
2	Aqualectra N.V.	Utilities
	SOE's in the process of being privatized	
3	UTS N.V.	Telecommunications
4	Curinta N.V.	Exploitation airport
5	Hadco N.V.	Airport development
6	Giro Curaçao N.V.	Bank
7	ITS N.V.	Information technology
	SOE's in preparation to become privatized	
8	CPA N.V.	Ports authority
9	Curinde N.V.	Exploitation e-zone
	SOE's still to be privatized	
10	Stadsherstel N.V.	Monuments
11	OBNA N.V.	Development bank
12	Refineria di Korsou N.V.	Refinery
13	Selikor N.V.	Garbage collection
14	CDM N.V.	Dry dock
15	Koningsplein Holding N.V.	Real estate exploitation
16	Woningbouw N.V.	Housing
17	Curoil N.V.	Oil distribution
18	Boeskabaai N.V.	Real estate property
19	Autobusbedrijf N.V.	Public transport

The Government and the International Monetary Fund agreed:

"For the Island Government of Curaçao, decision-making will be streamlined by transferring all shareholder authority to independent foundations" (IMF, 15 September 2000).

By the beginning of December 2000, StIP was established and is operational. This new, independent foundation has the authority to manage the shares of all SOE's and it has the assignment to prepare the privatization of all SOEs. The final approval to privatize will be transferred from the Legislative Council to the Executive Council of the Island Territory of Curaçao. The transfer of shareholder authority to this independent foundation is considered one of the most important factors determining a successful privatization process. Critical to this success is rapid decision-making in a non-political climate. StIP has gained substantial experience with regard to the privatization process and the importance of a tailored approach to the different SOE's. The current status of privatization of the SOE's is listed above.

Key to the success of privatization is also, the establishment of a Regulatory Board, for which preparations are being made. The current regulatory law (Prijsverordening 1961) is outdated and is too general in scope. For the utility sector and other industries the regulatory framework should be tailored to sector specific needs. An independent professional body like the Regulatory Board should execute the regulating processes. (see 3.9 Competition Policy)

3.9.2.3 Stakeholders and other relevant parties

- The shareholder the Island Territory of Curaçao
- The shareholder the Netherlands Antilles
- Consumers (importance of benefits of privatization for consumers)
- SOEs
- Labor unions (Privatization in general is accompanied by restructuring of labor within these enterprises)
- Financial sector (possibility of exchange of shares of former SOEs on local market)
- Potential investors

3.9.2.4 Other relevant activities

Establishment of a regulatory board needs to be realized.

3.9.2.5 Available background information, reports and policy papers

- Policy paper on privatization Curaçao, Advisory Committee Professionalization and Privatization of SOE's, (Adviesgroep Verzakelijking en Privatisering Overheids N.V.'s) (1998);
- Regulatory policy paper, Advisory Committee Professionalization and Privatization of SOE's, (Adviesgroep Verzakelijking en Privatisering Overheids N.V.'s) (1998);
- Urgency Program Island Government (1999).
- Strategic Policy Studies on CPA, Curoil, Curinta/Hadco,
- StIP's quarterly reports on the status of the privatization process

3.9.2.6 Indicators past years

- The number of SOE's privatized

3.9.2.7 SWOT analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • Well developed utility companies 	<ul style="list-style-type: none"> High utility tariffs Insufficient level of corporate governance
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> • Curaçao as an investment opportunity 	<ul style="list-style-type: none"> • Decision-Making Process Slow

3.9.2.8 Critical success factors and preconditions

- The role of the Netherlands Antilles as joint shareholder in certain SOEs;
- Interest of (international) investors in SOEs to be privatized;
- Establishment of Regulatory Board.
- Commitment to cooperate between StIP, Board of Directors and Supervisory Board of the SOE's.

3.9.3 Planning subsector

3.9.3.1 Sub sector objectives

The objective of privatization policy is less involvement of government in the economy, a stronger private sector and, hence, contributing to a better functioning economy, higher quality of goods and services, input of foreign capital, input of knowledge and experience, lower prices and, consequently, economic growth by upgrading management and efficiency of current SOEs through private shareholdership. These improvements will contribute to enhance Curaçao's competitive position.

3.9.3.2 Desired future development of indicators

It is important to mention that the (social) gains from privatization are perceived in the long run. Indicators are:

- The number of SOEs to be privatized;
- Quality of service by SOEs that are to be privatized;
- Lower prices caused by efficiency gains;
- The share of SOEs in GDP.

Except for the first indicator, these indicators are hardly measurable at the moment.

3.9.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- Policy actions depend on the results and findings of the evaluation of STIP and the privatization process.

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Policy actions Others

- Policy actions depend on the results and findings of the evaluation of STIP and the privatization process.

3.9.3.4 Assumptions and risks

Not applicable.

3.10 Tax Policy

3.10.1 Summary

The tax system in Curaçao is a much-debated issue. Compared internationally, tax rates are relatively high and the system very complex. In addition it is felt that the tax burden is not evenly distributed. From an economic point of view the tax system should be altered in order to stimulate economic development. Some initiatives have already been taken to improve the system, such as improving collection. The Chamber of Commerce and Industry initiated a plan to reform the tax system and in the Coalition Agreement (2002-2006) it is stated: "reform and simplify the tax legislation (among which also the BBO, the sales tax in St Maarten) and lower the tax burden. Although tax reform is a hot issue in Curaçao at the moment of writing, no concrete action by the government has been taken yet.

3.10.2 Description and analysis of subsector

3.10.2.1 Characteristics of tax policy

The Curaçao tax system was originally based on the Dutch tax system. However, it has not followed the updates and modernization of the Dutch tax laws since the autonomy of the Netherlands Antilles. As a consequence, the current tax system and/or the tax policy followed in Curaçao are not facilitating economic activity or are even distortionary. The high tax burden and the policy changes that are often responses to short-term liquidity problems create high costs, wrong incentives and uncertainty for the public (people and businesses). This is an often-heard complaint from the business community. This undesired situation has several causes:

- The two government levels, which are also present in the tax system: the central government is responsible for indirect taxes, the island government for direct taxes. After tax collection redistribution takes place.
- The budgetary situation at both levels of government. The budget deficit has time and again led to tax increases instead of expenditure cuts. The instrument is too easily available.
- The strong reliance on direct taxes, which are easier to collect, but put a very heavy tax burden on income and profit.
- The extensive practice of tax evasion across the tax base. This is possible because of an ineffective collection system and leads to a higher tax burden for the people and businesses that already did pay their tax in the first place.
- The easy tax-income from the financial offshore sector that 'spoiled' the system until the early nineties. There was no need to reconsider the tax policy since tax income was sufficient.

Based on international literature and tax practice the following criteria for a 'good' tax system can be put forward:

1. A reasonable and fair distribution of the tax burden
2. The least possible distortion of economic activity
3. Identical cases should be treated identically (equality before the law)
4. Effective and non-selective implementation by the Tax Department (legal security)

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5. Avoidance of unnecessary complex and difficult arrangements, differentiated tariffs and many exemptions. The regulations should be understandable for and applicable by the general public. In addition the implementation cost should be as low as possible.
6. The tax system should have public support

Currently, the system seems to be geared to budget financing and social goals (very progressive income tax rates) and the above-mentioned criteria have only played a role in the background. Evaluation of the system by these criteria gives the following results:

Sub 1 and 3. The distribution of the tax burden is uneven: in Curaçao and also within the Netherlands Antilles. Regarding the first, there is the heavy burden on income and profit and substantial tax evasion. With respect to the latter, research shows that in 1999 tax per capita in Curaçao amounted to ANG 7,345 and in St. Maarten only to ANG 4,125.

Sub 2. The Foreign Investment Advisory Service (FIAS) study (July 2001) on the environment for foreign direct investment in the Netherlands Antilles stressed that the current tax climate influences the foreign direct investment climate negatively.

Tax considerations are increasingly important in investment decisions, which indicates an increasing distortional effect of the system on economic activity. High taxes, a complex tax system, non-functioning supervision and collection, unclear investment incentives such as tax holidays etc., drive investors away.

Also the income tax policy is clearly affecting the social climate in Curaçao negatively. This contributes to the so-called 'brain drain' and makes it increasingly more difficult for companies to attract higher educated personnel.

Sub 4. There are many complaints from the business community that suppose a selective tax collection regime. Only "honest" people and companies pay taxes.

Sub 5. In their 1997 report, the Inter-American Development Bank qualified the Netherlands Antilles tax system as one of the most complex in the world. Recent measures have further complicated the system.

Sub 6. All of the above further stimulate tax evasion and erode public support for the system.

3.10.2.2 Government policy with respect to the tax system

The government acknowledges the fact that the tax system is currently not stimulating the business climate and seeks to improve the system. As stated in the coalition agreement (1999), the government strives to shift the emphasis from direct to indirect taxation. Also improvement of the collection system to decrease tax evasion is aimed for. A commission was installed to develop a better functioning turnover tax system.

In the period 2000-2002, much attention to the restructuring was distracted by the deplorable state of government finances. The need to finance government

expenditures and pay arrears has forced the government to increase tax rates, abolish exemptions and intensify collection. In this the focus was on the income tax. The government has asked the World Bank to pay special attention to the tax system in their report on structural reform on the Netherlands Antilles.

In the coalition agreement 2002-2006 of the Netherlands Antilles, it is stated that healthy public finance is a *conditio sine qua non* for balanced economic growth. The government agreed to control public expenditures, lower the debt quote and to lower the burden of social charges by a specifically orientated fiscal policy. The fiscal policy will consist of simplification of the tax system, lowering the tax burden and strengthen enforcement and collection.

A special commission has been installed by the Central Government to investigate the possibilities to reform the tax system. An official request to the Executive Council of the Island Territory of Curaçao has been sent in the beginning of November 2002. The islands have to appoint representatives for the commission.

3.10.2.3 Stakeholders

- Departments of Finance on island and central level (Afdeling Financiën en Departement van Financiën)
- Departments of Economic Affairs on island and central level (Dienst Economische Zaken and Directie Economische Zaken)
- Tax Department
- Chamber of Commerce & Industry Curaçao
- Business Community in general

3.10.2.4 Other relevant activities

- The process of decentralization of the Tax Department and the completion of the integration process (organization and collection) of the Tax Collector on Central level into the Island Collector in Curaçao and, where possible, also in other islands. In Curaçao it is expected that the decentralization process will be completed in the middle of 2003.
- Both the International Monetary Fund and the World Bank have stressed the need to structurally change the tax system.
- The Curaçao business community has repeatedly sought publicity for the negative effects of the tax system and the recent changes therein.
- The Curaçao Chamber of Commerce and Industry presented a plan in 2001 to reform the current tax system.
- In the coalition agreement 2002-2006 of the Netherlands Antilles it is stated in the financial paragraph that the current tax regime has to be reformed.
- The Netherlands Antilles have reached agreement with the Netherlands on the New Fiscal Framework (Nieuw Fiscaal Raamwerk, NFR). This means the end of the offshore tax regime, although for existing offshore companies a grace period is provided for. This puts additional pressure on the government to improve the tax system in order to continue attracting new international business. See "International Financial Services".

3.10.2.5 Available background information

- Memorandum by the Minister of National Recovery and Economic Affairs (July 2000)
- Coalition Agreement (Regeerakkoord 1999-2002)
- Coalition Agreement (2002-2006)
- IDB report (1997)
- IMF Policy Matrix and Memorandum of Economic Policies (September 2000)
- Article by Chairman of Antillean Association of Tax Advisors (December 2000)
- Letter by Antillean Association of Tax Advisors to Prime Minister (8 November 2000)
- FIAS report on the environment for Foreign Direct Investment in the Netherlands Antilles (July 2001)
- Chamber of Commerce and Industry Curaçao (2001), Ombuiging Fiscaal Regime: méér dan een noodzaak

3.10.2.6 Indicators past years

No useful indicators available.

3.10.2.7 SWOT analysis

<p><i>Strengths</i></p> <ul style="list-style-type: none"> • New Fiscal Framework and Tax Agreement with the Netherlands • Tax legislation and the presence of competent tax advisors 	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> • Too many taxes • High statutory rates • The arbitrary use of fiscal investment incentives • High protective tariffs on imports in Curaçao and Bonaire • Insufficient supervision and collection • Perceived disconnection between tax payments and benefits received
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • NFR/BRK provides opportunities for the International Financial sector (see that part) 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • The financial situation of the Central and Island Governments • The political (staatkundige) development of the Netherlands Antilles

3.10.2.8 Critical Success Factors and Preconditions

- The Island Department of Economic Affairs "DEZ" has too little technical knowledge to develop detailed proposals for improvement of the tax system. In

this the Economic Program is fully dependent on the Finance Department at island and central level to address the subject. On the other hand, DEZ may play a role from an economic point of view in a commission to be founded on the future tax regime. DEZ may also be able to calculate the tax proposals with the macroeconomic model Curalyse.

- Support of the Netherlands and the World Bank in developing a new tax system.
- Success in restructuring government finances and fighting tax evasion in order to prevent further tax increases.
- Involvement of the business community and DEZ to assess the economic aspects of tax proposals.
- The foundation of a multi-disciplinary working group, consisting of representatives of the government and the business community to tackle the problems of the current tax regime.

3.10.3 Planning subsector

3.10.3.1 Subsector Objective(s)

In the Coalition Agreement 2002-2006 it is stated that fiscal policy has to be geared to economic policy. However, no real subsector program on tax policy has been developed yet. From an economic point of view the following objective would be desirable:

A tax system that takes better account of economic aspects without neglecting the need for sound government budgets and social aspects, since the latter are important with respect to Macro Economic Stability (See "Macro Economic Stability"). In other words: a less distortionary tax system.

3.10.3.2 Desired future development of indicators

Not formulated in this program

3.10.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- When requested, DEZ will calculate tax proposals with the macroeconomic model Curalyse

Policy actions Others

- Working group on improving / reforming the tax system
This is an initiative of the Department of Fiscal Affairs (Directie Fiscale Zaken). The working group should consist of representatives from the islands and the central government. The major objective of this working group will be to present a position paper to the politicians with prior choices to determine a vision concerning this delicate subject.
- The Island Territory will probably receive an official request from the Central Government to contribute members to the working group. As indicated earlier to the Executive Council and the Commissioner of Economic Affairs, the DEZ wants to participate in the working group, mainly because of the relation between tax policy and economic policy.
The DEZ expects the Commission to start by the end of this year or at the beginning of 2003.

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- Relatively low-skilled labor needed;
- Relatively high spin-off effects of this sector.

Development stay-over tourism in Curaçao

The number of stay-over visitors, while having stabilized at about 200,000 for the greater parts of the 1990s, grew by 7 % in 2001 from 191,246 in 2000 to 204,603 in 2001 and 6.5% in 2002 from 204,603 to 217,963. The September 11 events have led to the decrease in stay-over tourism for many Caribbean countries in the last quarter of 2001 and the first months of 2002 with only 4 of the 17 destinations posting gains (according to CTO⁹). Of these Curaçao has shown the largest absolute gain in the traffic in the first six months of 2002 with an increase of 7,138 stay-over visitors. In the first months of 2001 the number of stay-over arrivals to the Caribbean region has fluctuated between a growth of 7.1% in Curaçao and a decrease of 17.4% in Turks and Caicos Island. This relatively good performance of Curaçao may be attributed to the availability of supplementary marketing funds from the Dutch government in the wake of the terrorist attacks in the United States. With regard to the projection in 2002, the WTO expects the tourism industry to pick up its habitual rhythm of growth in the second half of this year. This is due to the effects of the September 11 events, which are still reasons for most American travelers to travel by car rather than by air. Nevertheless the WTO believes that the growth of the tourism industry will depend on the economic development of the world rather than the events of September. As regards Curaçao the stay-over arrivals in 2002 seem promising, based on the result in the first 6 months. The additional marketing funds received from the Dutch government have contributed towards increasing the familiarity of Curaçao's name on the main markets. The stay-over visitors in 2001 have stayed between 2.5 – 15.3 nights and are estimated to spend some US \$ 228 million or between US \$ 540 - 1,211 per person per visit.

Development cruise tourism

The number of cruise passengers has, in the last two years, stabilized at the level of 300,000, after a growth of 40% in 2000 as compared with 1999. Nevertheless the number of passengers visiting the island in 2001 decreased by more than 2 % as compared with 2000. This decline can be partially attributed to the decrease in the number of passengers on cruise ships due to, among other things, the September 11 terrorist attacks. A Cruise Lines International Associations (CLIA) annual destination analysis shows that the Caribbean will capture 46.6 % of the world market in 2002 as compared with 44.5% in 2001. As usual, this area will be the top destination for capacity placement. Although Curaçao saw an 6% growth in the number of cruise visitors in 2002, to 319,000, this growth will not continue in 2003 as the Carnival cruise line and Celebrity, which visited the *island once a week*, will no longer be calling at Curaçao. One of the reasons that has contributed to the loss of the above mentioned Cruise lines is the competitiveness of Curaçao as compared to some destinations in the Caribbean such as Martinique. The decline in the number of passengers has been mitigated by the gain of Adventure of the Sea of the Royal Caribbean cruise line, which has added Curaçao to its itinerary twice monthly during the off-season. In 2003 there will be no significant growth in the number of cruise passengers visiting the island, due to the fact that no additional cruise line companies have added Curaçao to their itineraries. In 2004 no significant chances are expected in

⁹ CTO stands for Caribbean Tourism Organization

the numbers of passengers visiting the island. This due to the uncertain political situation in South American countries such as Venezuela and Colombia. Most western Caribbean navigation itineraries are a combination of one or two South American countries with some Caribbean islands. Nevertheless efforts are made to convince the Cruise line Celebrity to incorporate Curacao in their itinerary during the high cruises season 2003/2004. In 2005 there is a slight chance that Norwegian as well as Carnival Cruise line will include Curaçao once again in their itineraries. The cruise passengers visiting Curaçao will hence increase to the level of 2001 again.

To be able to accommodate the increasing cruise ships visiting the island the construction of a second cruise terminal is of eminent importance. However, according to CCAG there is no need to construct a second mega terminal, if the number of cruise passengers has not surpassed the level of 450,000. Based on the last-mentioned statement it could be concluded that before 2005 the construction of a second cruise terminal is not necessary. The last survey carried out by CTB shows that cruise passengers spend an amount of US \$ 75¹⁰ per person while visiting the island. At the moment this is around US \$ 60, however.

Hotel sector

Nowadays Curaçao offers approximately 2,100 rooms and 800 bungalow-style units, according to the Curaçao Tourism Bureau (CTB). Construction of new rooms and renovation and re-opening of existing rooms have proceeded quickly. By the end of 2001 366 new rooms had been constructed, an increase in inventory of 17.4 % and also 340 renovated rooms have been added back to the inventory. The additional rooms that have been constructed include, among other things, Hotel Howard Johnson 55 rooms, upscale Kura Hulanda 65 rooms and Habitat Dive Resort 14 Lanai rooms¹¹.

Sector bottlenecks

During the early 1990s, but mainly the last two years, the tourism industry of Curaçao struggled with a number of issues, which are summarized below:

- High operational costs of the sector as compared with other Caribbean destinations with which Curaçao competes, mainly Cuba and the Dominican Republic. These high costs give rise to relatively high prices and require those involved to invest heavily in training and product improvement to provide a reasonable value for money;
- The limited marketing funds. This can be based on the effects of the contingency marketing plan, financed by the Dutch government, that has led to a substantial increase in the amount of visitors.
- The marketing of the tourism bureau in the past years have been concentrated on a variety of markets for efficiency reasons. Nevertheless, due to the limited marketing budget this has still resulted in declining market shares in all the main markets.

Besides the bottlenecks mentioned above the following problems exist:

1. Red tape within government departments and authorities in dealing with tourist projects;

¹⁰Source Cruise survey 1999. This study has been conducted by Curaçao Development Bureau.

¹¹Lania rooms are hotel or apartment rooms provided with a terrace

2. Poor quality of service at all levels from immigration authorities to taxi-drivers;
3. Relatively high interest rates on productive investments;
4. Scarcity of high-standard (international chain) hotel rooms related to the expectation of visitors from the main markets;
5. Non-competitive price/quality levels of the tourist product in comparison to the other Caribbean islands;
6. Lack of standardization within the hotel sector concerning quality standards.
7. No consistency in government policy regarding the sector.

4.1.2.2 Government policy with respect to the tourism sector

In the former Government Coalition (1998-2002) on the Antillean level some measures were taken in the framework of the Urgency Program. The liberalization of the labor law was, among other things, one of the measures that have been partially implemented, in order to stimulate the investment climate in the island. Since 1995 the following actions have been taken to especially support the sector:

- The Island Development Plan (EOP), including tourism development, was approved by the Island Government in 1995.
- In 1989 the government instituted the Curaçao Tourism Bureau (CTB) to ensure sustainable development of the Curaçao tourism industry;
- In 1995 the Government declared the tourism sector the main pillar of the economy;
- In 1995 the CTB presented a Tourism Master Plan which was adopted by the government as the guide for sustainable development of tourism into the next century;
- In 1997 the government instituted a "Tuesday Group", consisting of several government departments and presided over by the Commissioner of Economic Affairs and Tourism, in order to minimize bureaucracy and to take quick decisions regarding urgent matters. In 2002 this group was dissolved.
- In 1999 the Island Government gave Horwath Landauer (HL) the task to analyze the performance of CTB. Horwath Landauer reported to the Island Government in September 1999.
- In 2000 the Island government gave PriceWaterhouseCoopers (PWC) the task to analyze the efficiency and effectiveness of CTB. The results of this study were published in the rapport "Performance Assessment of CTB in its context".
- The reorganization of the CTB has been partially executed in 2001 and will be continued this year.
- In 2002 the island government approved the Innerscity Development Plan (SOP). SOP is characterized by an integral approach that incorporates spatial, economic and social aspects. With this approach the Island government aims at revitalizing downtown as a multifunctional area with its own historic character, a strong economic structure and a pleasant environment for both residents and visitors. This implies a sustainable improvement of an important part of the tourist product, the innerscity area that is part of the World Heritage List of Unesco. To reach this goal SOP defines both area related and generic projects, of which those that improve tourist experience directly, are incorporated in MEP.

Presently the yearplan 2003 is being compiled, which aims at developing Pietermaai-smal in Punda and Korallengebied in Otrobanda. Both areas are indicated as 'action-areas' for sustainable development. Recent private and public

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investments already have initiated this and a continuous implementation of SOP will guarantee major, sustainable changes presenting Willemstad as the most important asset within economic development. During the period 2003-2006 each year a specific part of the SOP program will be implemented according to new yearplans that will be formulated.

In the past two years a number of MEP projects have been implemented. The majority of the projects in execution or in the process of being executed relate to infrastructure, product development or human resources. Some economic effects of projects that are being implemented: the creation of 91 new jobs in the Howard Johnson Hotel and an increase in the export of US \$ 800,000 of tourism expenditure on a yearly basis by the tourists staying in this hotel. The renovation of Molenplein (MEP C-T-35) by the government was conditional for the construction of this hotel. Besides, the training of employees for the tourism sector due to the implementation of the Hospitality Crash Course (MEP C-T-35) can be also considered a contribution to the economic development.

Some of the projects that are being or have been implemented, are:

- Renovation Molenplein MEP (C-T-35) is being implemented. This project regards the improvement of downtown public areas and development/ renewal of an important walkway for tourists and local pedestrian users). ;
- Renovation Rif Riffort (MEP C-T-26) has been completed. This project embraces (regards) the renovation and conservation of monuments, which is of vital importance from the point of view of its location nearby the mega cruise terminal. This monument is of great importance in the framework of the development of the inner city as a tourism recreation area and retail center.
- Hospitality Crash Course (MEP C-T-42) has been partially implemented. This project aims to train about trainees in the various disciplines in order to meet the demand of the sector. The number of trainees that passed the exam was 67 in fase 1 and 71 in fase 2;
- Contingency marketing (C-T-44) has been implemented. This project aims to increase awareness levels, Interest and the desire among selected destination markets and selected target segments, which should result in an increase in the number of visitors to the island). The Curaçao Tourism Bureau has, with regard to the September 11 terrorist attacks, applied for development aims grand in order to minimize the negative effect of this event. The CTB therefore received more than 3.5 million US dollar for marketing activities from the Dutch government, which was spent in the last quarter of 2001 and the first months of 2002.
- Renovation of roads in Christoffel National Park (MEP C-T-20) is being implemented. The roads at the Savonet side have been completed already. The renovation of the roads should make the park accessible again for cars.
- Renovation of 5 monuments (C-O-1,2,3,4,5). This is the renovation of Petit Trianon (Scharlooweg 13), Scharlooweg 9, Hoogstraat 51, Hoogstraat 21-23 and the police station in Punda at the Wilhelminaplein.

Larger investment projects, in particular in the hotel sector, have been hampered by a lack of confidence of investors and by shortcomings on the local capital market. In order to be able to finance these projects, which have a huge economic impact in terms of employment to be created, the local government has set up the Curacao Economic Participation Fund (CEPF). The goal of this institute is to sustain in

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financial terms high-risk projects which nationwide have a huge economic impact. The institute aims to stimulate all projects that generally contribute to the economic development, but more specifically projects in the tourism sector. The Executive Council of the Island Territory of Curacao has approved the CEPF last November. In 2003 the structure of this foundation has to be worked out.

Between 2003-2006 the institute will concentrate on the following tourism priority areas on the island:

- Blauw Bay;
- Santa Barbara
- Cornelis Bay
- Jan Thiel Bay
- Piscadera Bay
- Caracas Bay

Those projects will contribute to the increase of room capacity by about 700-1050 in the above-mentioned period. Some of these projects are already registered in this program as projects to which the government has to contribute with the building of the required infrastructure.

If the industry as a whole is to grow by adding profitable rooms it will require disproportionate growth from the North American market which (a) tends to use larger hotels during its stay and (b) already sends about 10 million visitors a year to the Caribbean so is a large market already familiar with the Caribbean, although not necessarily with Curaçao. Such growth from the other markets is less feasible. It is recognized that the Dutch market is small and sends relatively few visitors (250,000 a year) to the Caribbean, of which Curaçao currently holds a 23% share. As well less than 40% of Dutch visitors use hotels during their stay on the island. It is further acknowledged that in the medium term the Venezuelan and Colombian markets, whilst intrinsically attractive, have certain political, economic and social constraints, which will limit any substantial growth in foreign travel. Caribbean traffic, whilst lucrative, tends to be highly shopping oriented with many visitors purchasing goods for resale in their home countries. This tends to result in use of smaller, less expensive accommodation.

In North America research has shown that many of the affluent, sophisticated travelers are looking for a "new" and "different" experience, an authentic experience, not an artificial resort community. Research has shown that there are about 3.1 million of these persons in North America, of which just 1% travel to Curaçao. The CTB is marketing its culture, history, heritage, environment, (including diving opportunities), to these 3.1 million in an attempt to increase its share of that particular target market.

Across all markets there is one consistent strategy. That is to recognize that the only way Curaçao is going to grow is by being seen to be distinct and different from other Caribbean islands. Should Curaçao attempt to replicate the product put in place in places such as Aruba and Cancun it will find that this artificial resort destination can easily be copied and developed elsewhere in lower cost countries such as the Dominican Republic or Cuba and will rapidly become uncompetitive. Consequently

Curaçao needs to focus very much on maintaining its heritage and culture because it will be this which will ensure that Curaçao has a real and authentic product to offer not just another resort strip with nothing behind it, something the increasingly sophisticated international travel market is looking for.

4.1.2.3 Stakeholders and other involved parties

No.	Organization	Function
1	Curaçao Tourism Development Board (CTDB)	The organization responsible for tourism development.
2	Curaçao Hospitality And Tourism Association (CHATA)	The representative of A-B hotels and over 100 allied members.
3	Curaçao Association of Small Hotels and Apartments (CASHA)	Organization representing the apartment owners in the island
4	Downtown Management Organization (DMO)	Representing the retail businesses within the Punda area (Cruise and stay-over tourism).
5	Sosiedat Komersiantenan di Otrabanda (SKO)	Representing retail businesses (Otrabanda Cruise tourism)
6	Curaçao Cruise Action Group (CCAG) ¹²	Cruise tourism (overall)
7	E-zone Associates Curaçao (FREZACUR)	Free zone walk-in tourism
8	Dutch Caribbean Express (DCA)	National Carrier of the Netherlands Antilles.
9	Sinusta	Taxi drivers' association
10	Carmabi	
11	SSV	Organization for the development of the innercity

4.1.2.4 Other relevant activities

The government takes initiatives to support the sector by initiating or contributing to some other activities that are taking place within the sector. One of these initiatives that is worth mentioning is:

- In 1999 there was a private initiative to come to a total vision for the island of Curaçao (Vishon Korsou). Tourism has been identified as one of the most important sectors for the further development of Curaçao.

4.1.2.5 Available background information, reports and policy papers

- Master Plan Tourism
- World Bank report (1986);
- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997);
- Report Horwath Landauer (1999);

¹² DMO, CHATA, SKO, CPA and CTDB are organized in the Curaçao Cruise Action Group (CCAG). CCAG is the coordinating organization for the development of cruise tourism. The main target is to promote and develop Curaçao as a cruise destination.

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- KPMG "Performance of the accommodation 1992-1996" (1997);
- INPRO-T (1997);
- PWC presentation sheets (2000).

4.1.2.6 Indicators past years

Table 1. Macroeconomic indicators of the tourism sector

	1990	1997	1998	1999	2001
Turnover as % of GDP ¹³	6.1%	5.9%	5.7%	5.9%	
Employment*	8,148	9510	8951	8579	8,594
Investments (In millions) **		27.8	26.8	26.6	93.6
Contribution to Foreign reserve (in millions)	214	305	279	298	318.9
Government receipts (in millions) ***	8.9	25.3	24.6	24.0	24.9
GDP (In millions)	2,341	3,461	3,474	3,214	3385
World arrivals annual growth in %	8.0	2.4	2.4	2.7	-1.3

Source: Department of Economic Affairs of the island territory of Curaçao

* Direct and indirect employment

** Investments of private and public sector

*** Room tax, excise duty and profit tax

Table 2. Sector specific indicators

	1990	1998	1999	2000	2001
Total stay-over arrivals	207,572	198,570	198,263	191,246	204,603
Annual growth %			-0.1	-3.5	7
Total cruise passengers	158,552	228,900	220,706	308,281	300,138
Annual growth %			-3.6	39.7	-2.6
Occupancy rate hotel		60.5%	71%	60.8%	63.1%
Luxury hotel room ¹ #	1,436	2,528	2,821	2100 ¹⁴	2806

1. Stands for the 8 largest hotels and luxury hotel (3 or 4 stars) the island

Sources: Curaçao Tourism Development Bureau and Curaçao Hospitality and Tourism Association

4.1.2.7 SWOT Analysis

To have a better insight into the development in the sector a SWOT analysis was conducted on the two main areas, mainly stay-over and cruise tourism.

Stay-over Tourism

The results of the SWOT analysis for stay-over tourism are presented in the table below.

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • The geographic position of the island outside the hurricane belt; • A diversified product with the possibility of offering a wide variety of recreational activities, including water 	<ul style="list-style-type: none"> • Lack of private funds for marketing purposes; • Lack of skilled labor (in general); • Lack of service-minded mentality; • High utility costs, • Air and visual pollution (especially caused by

¹³ Figures according to the Turistica Model of DEZ. However, the IMF estimates the turnover at around 15% and the IDB even higher.

¹⁴ In 2000 the number of rooms declined to the level 2100 due to, among other things, the reconstruction activities by 3 major hotels mainly, Super Clubs Breezes, Hotel Kura Hulanda and Floris suite.

<ul style="list-style-type: none"> • sports, horseback riding and hiking; • Cost and availability of fuel; • Strong representation in airlift to South America and Europe; • The island's nomination to the world heritage list of UNESCO since 1997; • Beaches; • A relatively safe destination within the area of the Caribbean; • A relatively clean diving environment as compared to other Caribbean islands; • High quality diving sites; • Distinctive landscape with varied flora and fauna; • Visitors feedback about the destination generally positive • Increasing presence of brand name hotels such as Marriott Sheraton Super Clubs Breezes and Howard Johnson 	<ul style="list-style-type: none"> • the oil refinery); • High interest rates on productive investments; • Lack of a clearly defined tourist product (product development); • Lack of adequate beach facilities; • Lack of coordination regarding primarily taxi transportation; • Red tape within government in dealing with tourist projects; • Lack of focused marketing as well as product that meets the needs of one market only, but not others • Lack of information for tourists regarding places to visit in the island. Lack of road signs indicating where to find the various places • High dependency on local carrier.
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • A relative good diving product • The possibility to stimulate cruise passengers to visit the island as stay over tourists; • Relative safe and relax destination for Latin America Tourism; • Explore market segments such as weddings and honeymoons. • Relative unknown destination in the US market, with great opportunity to appeal on visitors looking for new destination. • Improvement of the tourism product in terms of improved beach facilities, road signs along tourism routes. 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • Less competitive price level compared to the region; • Difficult to plan a long-term tourism plan for South American market due to the economic situation. • Limited marketing funds in order to increase market penetration. • Political situation in South America, mainly Venezuela and Colombia • Visa requirement for visitors from Jamaica and Colombia • The effects of the war in Iraq on the oil price and terrorism attacks.

Strengths

According to the survey conducted by Horwath Landauer the cost and availability of fuel was considered one of the destination's competitive advantages. Hence, likely this is one of the reasons the island is used as a regional hub. In 1997 the downtown area was added to the UNESCO world heritage list. This gives Curaçao a unique position as a typical historical destination situated in the area of the Caribbean.

Weaknesses

In the last few years a lack of well-prepared and trained personnel has been one of the bottlenecks of the tourism product. On all levels an absence of skilled personnel can be noticed, starting from room maids up to qualified cooks or managers. Another

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weak point regarding this sector is the air and visual pollution caused by the refinery situated in the center of the harbor where the majority of the cruise ships moor. Besides the entire road network to the majority of the attractions is connected to the main road which road forms a circle around the refinery. This implicates that from all directions in the city area the refinery can be seen (See also 5.2 environment).

Further it can be observed that the competitive islands are renowned for various attributes. For example, Aruba is known for its long stretches of white sandy beaches, while Curaçao still does not have a strong branch image/positioning on which the marketing is based. The air service from almost all markets is limited. Nearly half of all stay-over tourism arrives by Dutch Caribbean Airlines, the Dutch Antilles Carrier, which operational performance leaves room for improvement.

Opportunities

Curaçao yearly receives about 300,000 cruise visitors. Their opinion of the quality of Curaçao as a product is generally rated as high (cruise survey 1999, CTB). With proper management of the names and addresses of the visitors the impact of the conversion program of cruise visitors to stay-over visitors can be significantly increased. In surveys conducted among stay-over and cruise tourists in 1999 have shown that the diving product of Curaçao is of relatively high quality, as compared with the other Caribbean destinations. With the improvement of the onshore facilities and proper management of these resources a further exploitation of this segment will be possible.

Threats

One of the threats for the coming years is the off-balance growth between the amounts of stay-over visitors and cruise passengers. This development can lead to huge investments in order to accommodate cruise passengers. However, due to the relatively small number of passengers, the short stay, and seasonal nature and the low daily expenses in comparison to stay-over tourism, the yield for the island can be less as compared to an investment in a stay-over project. Another threat is the worldwide tendency of cruise line companies to build mega cruise ships in order to accommodate large numbers of passengers. These cruise ships offer all the commodities a passenger can desire, with the result that most passengers will purchase all the needed service and products on board, which will result in less spending at various ports. The Central government has introduced a visa for visitors from Colombia and the Dominican Republic. The main reason behind this decision is the increasing criminality on the island caused by drugs problems. This measure can cause a decrease in the amount of visitors to the island depending on the period needed by the authorities for processing the visa. The political situation in Venezuela, which is one of the main markets of Curacao can, negatively affect the numbers of visitors to the island. The crisis in Iraq can cause an increase in the oil price worldwide, which will affect the world economy and also the tourism industry. Because of the war in Iraq terrorism attacks in the United States or other alliance country may increase.

Cruise tourism

<i>Strengths</i>	<i>Weaknesses</i>
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<ul style="list-style-type: none"> • The possibility of offering a wide variety of recreational activities including water sports, horseback riding and hiking; • Wide possibilities of recreation in the island from the culture perspective; • The mega Cruise terminal; • Cruise lines rated Curaçao as an attractive destination due to the quality of support facilities and customer satisfaction. 	<ul style="list-style-type: none"> • Lack of duty-free stores in the inner city; • The geographic position of the island outside the main cruise route.
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • Duty free downtown 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • More buying facilities on mega cruise ships; • Lack of attention to the drug-addict problem in the inner city.

Strengths

In a survey conducted in 1999 by CTDB among visitors, both cruise passengers and stay-over visitors rated the beaches in the island as very good. Visitors have a plethora of educational and historical attractions to visit, including the Museum, The "Kura di Hulanda", Sea Aquarium and so one.

Threats

One of the threats for the coming years is the off-balance growth between the amounts of stay-over visitors and cruise passengers. This development can lead to huge investments in order to accommodate cruise passengers. However, due to the relatively small number of passengers, the short stay, and seasonal nature and the low daily expenses in comparison to stay-over tourism, the yield for the island can be less as compared to an investment in a stay-over project. Another threat is the worldwide tendency of cruise line companies to build mega cruise ships in order to accommodate large numbers of passengers. These cruise ships offer all the commodities a passenger can desire, with the result that most passengers will purchase all the needed service and products on board, which will result in less spending at various ports.

4.1.2.8 Critical success factors and preconditions

The critical success factors deduced from the conducted SWOT analysis for *stay-over tourism* are:

- The attraction of more international chain hotel operators, to offer an all inclusive and luxury product;
- The political situation in some South American countries mainly Venezuela which is one of the main markets of Curacao
- The introduction of a visa with regard to visitors from some growing markets in the tourism sector
- A public and private sector to concentrate their marketing efforts on only the priority markets and also determined to gather the needed marketing funds
- The necessity to organize training programs in order to deliver skilled labor needed in the sector;

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To support this growth in rooms, attention has to be directed to the marketing efforts to promote the tourist product abroad in relatively few, select markets. Based on the marketing plan 2002-2006¹⁷ the marketing effort will be mainly directed to the three major market destinations visiting the island.

According to the study of Horwath Landauer, CTB has to concentrate its marketing efforts on a few select markets. The focus has to be on the further development of the primary markets. Besides, the private sector has to increase their participation in marketing efforts. In the past few years the Netherlands (29%), Venezuela (15%) and the US markets (15%) have been the three main markets where most visitors came from (around 60%). The government of Curacao has increased the budget level from ANG 18 million to 25 million. This in order to at least maintain the level of visitors after the implementation of the contingency marketing plan.

In the nearby future the Curaçao Tourism Development Bureau will dispatch (transfer) the investment promotion division to the Curaçao Economic Development Board (CEDB). The reason for this decision is the aim to concentrate all efforts on attracting investors to the island in one organization (one window stop philosophy). Anticipating on this development the name of the tourism bureau has been adapted to Curaçao Tourism Bureau. For the coming years, the one of the task of EDB is to attract investors whose projects are mainly directed to activities for the visitors from the main target markets. This includes also acquisition of chain hotel operators.

3) The necessity to organize training programs in order to deliver skilled labor needed in the sector.

In the last 2 years the CTB has concentrated its efforts in upgrading local workers and fighting unemployment in order to fulfill the demand for employees in the tourism sector. One of the programs that have been carried out was the Crash Course directed to the subsector hotel/restaurants and café (Horeca), which aimed at upgrading personnel within this subsector. Besides, for the coming 4 years (2003-2006) more emphasis will be laid on the human development inside the horeca subsector. In the 2003-2006 Multi Year Economic Program projects such as recommendation retail, taxi, the hotel sector, National Communication plan and Human Resources Strategy Plan would be executed in order to increase skills and consciousness among the horeca personnel and local citizens.

Indicators Cruise tourism

At the end of 2003 a total of approximately 281,65 had visited Curaçao. This number is based on confirmation of the various cruise lines till now. This number of visitors will represent a decrease of 11.8% as compared to 2002. Based on the projected growth of the Caribbean cruise industry of 2.1%, a conservative annual average growth of 1 % with regard to 2004 and 2005 is expected, according to main stakeholders of this subsector. This poor performance is based on the political instability in the western side of the Caribbean region. Mainly the situation in the South American lands Venezuela and Colombia which most of the time are being combined in one navigation itinerary with the Western Caribbean islands. Taking in account the slight growth of around 1 % in 2004 the amount of passengers will be around the number of 283,77(table 8). In this year a former cruise line company is

¹⁷Drafted by Curaçao Tourism Bureau. This document has been submitted to the Dutch government for approval

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expected to incorporate Curacao in its itinerary. A conservative estimate shows that the number of visitors will reach the number of 292,553 cruise passengers in the year 2005/2006. The increase of the amount of visitors in the year 2005/2006 is based on some assumptions made in terms of contracts with new cruise line companies. For the year 2007 an increase of 1% is being expected, due to the uncertainty regarding the cruise long-term development.

Table 6 Projection Cruise Tourism

	2000	2001	2002	2003	2004	2005	2006	2007
Number of Passengers	309,373	300,138	319,000	281,165	283,977	286,816	292,553	298,404
Annual growth	39.7	-2.6	6.3	1	1	1	1	1
Daily expenditure US\$ per tourist	57 ¹⁸		59	75	75	75	75	75
Contribution to foreign exchange (in millions ANG)	31.6	31.3	33.4	30.0	30.9	31.9	32.8	33.1
Net turnover (in millions ANG)	24.6	24.4	26.1	23.4	24.1	24.9	25.6	25.8

4.1.3.3 Identification and analysis of all relevant activities and projects to be implemented

Below all MEP projects being implemented, submitted for finance with BZK (or other donors) and in preparation are listed. Many more project ideas are included in the MEP project database. However, preparation will only be done when sufficient funds are available.

Identification of all relevant activities and projects regarding tourism in general

Policy actions MEP

- Implementation tax – free shopping (Financing Island Government)
DEZ/DMO/KPMG

Projects MEP

MEP Projects being implemented		
MEP Code	Name	Project owner
C-T-35	Renovation Molenplein	SSV
C-T-20	Renovation Roads Christoffel Park	Carmabi
	Landscaping Route Hato – Downtown (Financing Island Government)	LVV
C-T-50	Fund Facilitation Tourism Investments	Korpodeko
O-B-1	Restoration Petit Trianon	SMC
O-B-2	Restoration Scharlooweg 9	SMC
O-B-3	Restoration Hoogstraat 51	SMC
O-B-4	Restoration Hoogstraat 21-23	SMC

¹⁸ Source: Cruise expenditure survey for the first quarter of 2000

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O-B-5	Restoration Punda Police Station	SMC
C-T-8	Marketing tourism	CTDB
Projects submitted for financing		
MEP Code	Name	Project owner
C-T-22	Bridge connection "Handelskade – Scharloo"	CPA
C-T-41	Human Resources Strategy Plan	CTB
C-T-30	Rehabilitation Quay Walls Scharloo/Kleine Werf (small wharf)	
B-IP-5	Environmental Certification Hotels Curaçao	ICC
C-T-48	Open air Museum Savonet	Carmabi
C-T-47	National Communication Plan Tourism Awareness 2002 - 2006	CTB
C-T-31 ^a	Innercity Development Program (SOP) 2003 – 2004 (Pietermaai Smal and Koralen Area)	SSV
C-T-51	Development Program Christoffelpark	Carmabi
C-T-53	Touristic Dive Location Mediator	SMK
Projects in Preparation		
MEP Code	Name	Project owner
C-T-4	Implementation plan recommendations audit retail sector	CTB
C-T-5	Implementation plan recommendations audit hotel	CTB
C-T-43	Implementation plan recommendations Taxi Drivers	CTB
C-T-1	Cruise Market Study 2001-2010	CCAG
C-T-2	Training program beginning taxi drivers	CHTTC/CTDB
C-T-19	Beach improvement program	LVV
C-T-31 ^a	Innercity Development Program (SOP) 2005 (Scharloo Abou and Rif Area)	
C-T-39	Restoration Waterfortbogen	SSV
C-T-52	Back on Track	Empresa
C-L-9	Study Second Megapier	CPA
C-EC-1	Crash Course E-commerce	CECP
C-T-61	Water Treatment Klein Hofje	DOW
C-T-62	Website Historical Curaçao	NAAM
MEP Projects completed		
C-T-26	Riffort Otrobanda	SMC
C-T-42	Crash Course Horeca	CTB
C-T-44	Contingency Marketing Plan	CTB

4.1.3.4 Assumptions and risks

- The success of the projects National Communication plan, Human Resource Strategy Plan and Crash Course Horeca depends on the commitment of the local

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government and the commitment of the employers in allowing their employees to attend the training sections. (risk low);

- With regard to the marketing plan (MEP C-T-8), some of the assumptions are:
 - That the room stocks will develop as planned (low risk)
 - Tourism will remain one of the spearhead (low risk);
 - In the foreseeable future airlift connection to the major destinations will keep track of the growing tourism from these markets. This is in order to provide the visitors with the needed air transportation. (medium risk)

4.2 Logistics (Harbor)

4.2.1 Summary

The harbor is of strategic importance in the logistic sector of Curaçao, especially for the distribution of goods and oil and value added services it offers. In the last few years, cruise tourism is becoming increasingly important to the harbor. The harbor has a high quality level of organization and offers many services such as stevedoring, docking, tugboats, bunkering, piloting etc. The handling costs of goods for local freight are relatively expensive due to, among others things, an inflexible labor market, lack of export products and possibly the market structure of the harbor. Logistics is one of the identified target sectors with potential to grow.

4.2.2 Description and analysis subsector

4.2.2.1 Characteristics of the sector

The logistics sector of Curaçao, and especially the port, is a sector of high quality as regards services provided and the large number of possibilities offered (IDB, 1997). In 2000 and 2002 The Caribbean Shipping Association awarded Willemstad, as the most dependable harbor. The harbor plays an important role in logistics, as an open island economy container vessels bring in most goods and capital assets. It also provides a range of services to (cruise) tourism, the oil industry, the E-zones and other vessels.

There are four major companies operating in the harbor. These are;

- Curaçao Ports Authority N.V. (CPA) is the authority and owner of all port infrastructure, superstructure and facilities. Our port is classified as a tool port meaning that it leases through a concession all infrastructure and superstructure to the lessee. CPA implements the government's policy, and manages Curaçao's ports. Some of its other activities are the collection of port tariffs, including harbor dues, wharfage, pilotage and cruise passenger user fees
- Curaçao Port Services N.V. (CPS) which has been managing the Willemstad Container Terminal and other cargo facilities in the Port of Willemstad based on a concession agreement with CPA, since 1983. CPS is one of the few companies in the Caribbean that has an ISO certification 9001-2000
- Curaçao Drydock Company (CDM) offers a full-service shipyard for ships, including shiprepairs, engineering and underwatercleaning.
- The Koningsplein E-zone is located in the harbour area. This E-zone was the first free zone on the island of Curaçao. Over the years, it has grown to 113 companies that employ over 816. (See also 4.3 E-zone).

The shipping industry encounters a difficult period. There is an increasing competition between the players on the service level. The companies are competing on faster service and more efficiency against lower costs. Because of this there is a pressure on the tariffs, thus lowering the margins. The situation has been aggravated by the negative economic effect of the 9/11 attacks and the worldwide economic recession. The market has been in a downturn. The countries in the region that present great competition for Curaçao's port are Trinidad & Tobago, Venezuela, Panama and the Bahamas. Compared to Curaçao (CPS) that enforces differing rates according to

the time of day, the container-handling department of Trinidad & Tobago's port implements flat rates the whole day. Contrary to Curaçao's harbor, the Bahamas harbor has a favorable geographic location. Being closer to the USA gives it a competitive edge. Even in the low season, the port is frequented by one-day cruise tourism. In Venezuela the labor costs are lower than in Curaçao because wages do not include social securities for the employees. Despite all the above-mentioned factors, in 2002 the Caribbean Shipping Association awarded the port of Curaçao as the Most Dependable Port for the third time in five years. This illustrates that Curaçao's harbor is of high quality. Also there is a slight growth of about 5% in the harbor related activities, more specifically container transshipments have increased by 21.7% from 2000 to 2001 and shiprepairs have stabilized. In 2002 overall transshipment activities decreased by 10 % due to the economic downturn in Venezuela. Expected increase of transshipments will depend on improvement of the economic situation in Venezuela.

4.2.2.2 Government policy with respect to the sector

The overall policy of the government is to stimulate privatization of all state-owned companies. STIP as the foundation responsible for coordinating, initiating and guiding of the privatization process (see also 3.9 Privatization), has conducted a study on the operations and privatization strategies. The most adequate privatization option for the harbor is considered the Landlord model, it serves governments objectives best with privatization. Characteristic of the Landlord model is that government retains ownership of all superstructure, infrastructure and facilities and even of new constructions and facilities, built by the lessee. Negotiation of the contracts is underway, government intends to build elements of competition in the new agreement. For instance, by shortening the duration of the stevedoring contract and stimulating more competition in the market

According to this study, Curaçao Ports Authority (CPA) is an example of a state-owned organization that is considered to be operated rather efficiently.

Logistics is one of the identified target sectors that have the potential to stimulate the economy. As the major shareholder the island territory of Curaçao has a decisive say in the functioning of CPA through the Board of Supervisors. The Netherlands Investment Bank (NIB) has a 5% minority share. CPA is responsible for the exploitation of the harbor in a way that stimulates further use of the harbor by different users, such as freighters, cruise ships, tankers, etc. In this light, CPA has stated that the new concession arrangements with the Curaçao Port Services (CPS) should include incentives for further harbor development.

4.2.2.3 Stakeholders and other involved parties

- Curaçao Port Authority (CPA); implements government policy and exploits harbor activities
- Curaçao Port Services (CPS); offers handling services of containers, transshipments and other types of shipments. They also provide services for transportation and distribution of goods
- The Customs Service is responsible for the clearing of goods and preventing illegal activities.
- Curoil is the exclusive distributor of oil products in the harbor and in the island.
- Curaçao Dry Dock Company (CDM) repairs ships.

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- Curinde N.V manages the E-zone Koningsplein, located adjacent to the harbor and has a leading role in new investments in the zones.

4.2.2.4 Other relevant activities

- Harbor activities that now take place at Caracas Bay will have to be cancelled in the near future, due to planned eco-tourism development
- *The intention is to expand the harbor area, with area (6 ha) adjacent to the Coca Cola factory by CPS. This area will be used for harbor-related activities. Negotiations with relevant government agencies are still underway.*
- The Foundation for privatization of state-owned enterprises (StIP) is currently exploring in joint cooperation with a core group of SOE's *and particularly those that have a strategic partner*, the possibility to develop Curaçao into a logistical hub (Logistic Junction) for the South American and Caribbean region.

4.2.2.5 Available background information, reports and policy papers

- Economic Impact Study (EIS) for the maritime Sector of the Netherlands Antilles (1998);
- The Curaçao Economic Outlook 2000;
- The IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997);
- CPS, Action Program 2002-2003
- CPA, Port Statistics 1999 versus 1998.
- CPA, Port Statistics 1997 versus 1996.
- Urgency Program (Urgentieprogramma) (1999)

4.2.2.6 Indicators past years

Macroeconomic indicators

Table 1 Macroeconomic sectoral indicators

	1990	1993	1997
Contribution to GDP	n.a.	12.6%	12%
Employment	n.a.	n.a.	6.170*

Source: EIS

* Direct and indirect employment

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Sector Specific Indicators

	1999	2001	2002
Curaçao Ports Authority N.V. (CPA)			
Piloted Vessels Inward (2002-oct)	3,092	2,672	3,053
Piloted Vessels Inward Gross Registered Tonnage (GRT) (2002-oct)	38,454,158	38,343,450	38,276,433
Average Tonnage	12,437	14,350	12,537
Cruise Tourism passengers	220,706	300,138	319,067
Bunker sales water (cubic meters)	41,577	42,000	30,483
Curaçao Port Services N.V. (CPS)			
Container movements (TEUS)	78,032	78,439	80,741
Transshipment	7,598	8,948	8,307
Curaçao Drydock Company (CDM)			
Amount of ships repaired	505	613	369*
Man/sold hours	624,378	930,758	659,756*

Table 2 Sector specific indicators for the harbor

Source: CPA

*figures cover as far as the third quarter

4.2.2.7 SWOT Analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • Harbor facilities of high standard • Sheltered port outside hurricane belt • Reliable operations and infrastructure • Ability to handle vessels up to 40 feet draft • ISO certification 9001-2000 qualification of CPA and CPS • Special ship repair/maintenance port for cruise vessels and special project vessels • Export Credit Insurance 	<ul style="list-style-type: none"> • High cost of transportation • Operational structure in the port • Environmental issues related to the oil industry • Market structure • No Masterplan for Marketing total logistical sector (Government/private enterprises) • Lack of export cargo • High labor and utility costs • Lack of skilled labor • Lack of area for expansion of activities • Not a full-fledged member of CARICOM

<p>Opportunities</p> <ul style="list-style-type: none"> • Bunkering of ships (water & Fuel) • Development of part of Bullenbaai for deep-sea terminal • Hub to South American and Caribbean markets (incl. Free Zone/E-commerce) • Special port project for ship to ship and ship to shore stevedoring operations • Establishment of port related industries. 	<p>Threats</p> <ul style="list-style-type: none"> • High operational costs • Regional competition • Outdated customs legislation.
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Strengths

The IDB report (1997) states that the harbor facilities of Willemstad are of a high standard, especially for the oil industry, services, freight handling, ship repairing and the cruise terminals. The proclamation of being the most dependable harbor in the Caribbean by the Caribbean Shipping Association (CSA) underlines this. The harbor is outside the hurricane belt and provides good protection to ships. The harbor is a means to generate foreign exchange, because of the services being provided to foreign clients and taxes being collected. There have been major investments over the last few years to optimize services and make the infrastructure even more reliable. The ISO certification of CPA and CPS is one of the selling points for the quality of the harbor. In addition, the depth of the harbor is a strong point, which allows ships with a draught of 12 meters to enter easily. Port-related industries such as Curaçao Dry Dock Company (CDM) can take a larger share in the repair and maintenance of cruise ships and other special ships in a growing market. Finally, the Export Credit Insurance facility will diminish the export risk and will generate more export, which means more return freight in containers, which will lead to lower transport costs by the freighters.

Weaknesses

Due to the fact that Curaçao is an island, transport costs of goods are relatively high. Everything has to be imported through our ports. Labor costs rise especially after 15:00 in the harbor; after that time overtime rates are charged. Another weakness is the fact that Curaçao is a small hinterland. The harbor is characterized by a very much concentrated market structure: there is only one supplier of container handling and shipment services, which is CPS.

The intention with the founding of the Regulatory Board is to pass over all tariff setting of the harbor to an independent, professional body run by the Regulatory Board. Opinions differ on the effect of the market structure regarding the development and the competitive position of the harbor. In the current agreement only the government runs financial risk of obsolescence of their capital assets, furthermore the stevedoring company has the exclusive right to renegotiate the contract on expiration. A shorter contract period builds an incentive to the stevedoring to be more competitive. A longer period is only reasonable if the lessee has made a substantial investment. A longer period is then needed to recover the investment. On the other hand, the quality of services is high. More attention has to be paid to environmental issues, especially in relation to the refinery; this can still be considered a weakness. The stakeholders within the area of the harbor do not have an integral marketing master plan. The lack of export cargo means that import cargo also has to pay for the

empty container that has to be sent back. The lack of area in order to expand harbor related activities is also a factor that impedes the further development of the harbor. There is an area (6 ha) available adjacent to the Coca-cola factory, but the discussion about the sale and development has not yet been finalized. The utility costs are high due to expensive and sometimes inefficient production methods for electricity and water. And finally there is lack of skilled local workers, especially at CDM, because many of these workers have emigrated to The Netherlands. Too often workers have to be flown in from other countries (such as Cuba and Portugal) for a short or long period, depending on the length of the project. This means that the total cost for these employees is high.

Opportunities

Bunkering of ships is well developed and has potential. Bunkering of fuel could even be more beneficial, according to CPA, if Curoil had a large strategic partner, because more and more shipping companies make deals with oil companies that have selling points in several harbors. An unused part of Bullenbaai is an opportunity for development because of the possibility to accommodate even bigger ships. Curaçao should focus more on a hub function to South American markets, because the harbor is well organized and reliable as a partner. Special attention of development should be given to the ship-to-ship, and ship-to-shore stevedoring.

Threats

Competition from the region, especially in cruise tourism is a threat. Because when a cruise line prefers another port than Curaçao's, CDM misses the opportunity to maintain and or repair these ships. The customs legislation is a bottleneck due to the fact that it often takes too long to give clearance to containers. These long and tedious procedures discourage investors to continue with their investing plans.

4.2.2.8 Critical Success Factors and Preconditions

- The economic situation in Curaçao;
- The possibility to obtain extra industrial areas for the E-zone Koningsplein and for CPS;
- A government approved new harbor development plan
- The ability to increase the export of goods;
- New legislation on customs;
- Adaptation of the legislation on the economic zones;
- New legislation on labor; external dependency of the national government for the development of the harbor is, for example, the need to change legislation and collective labor agreements to cut down labor costs outside the normal working hours through this legislation.

4.2.3 Planning subsector

4.2.3.1 Subsector Objective(s)

- The main objective is the growth in activities in the harbor until 2005.
- Maintain the quality of the service level at least at the same high standard that it currently is
- Encourage new developments for further improvement of the services, such as the areas to be expanded for more activities by CPS

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- Strategic Partner for CPA, within tight regulations

4.2.3.2 Desired future development of indicators

In table 4 measurable target indicators are formulated for the year 2005. Projects that stimulate to reach these targets should be implemented. These are mentioned in paragraph 3.3.

Table 4 Sector specific indicators for the harbor

	1998	1999	2005*
Curaçao Ports Authority (CPA)			
Piloted Vessels Inward	3,488	3,092	4,000
Piloted Vessels Inward Gross Registered Tonnage (GRT)	42,421,851	38,454,158	52,000,000
Average Tonnage	12,162	12,437	13,000
Bunker sales water (cubic meters)	103,309	41,577	120,000
Cruise Tourism passengers	230,986	220,706	400,000
Curaçao Port Services (CPS)			
Container movements (TEUS)	71,554	75,471	100,000
Curaçao Drydock Company (CDM)			

Source: CPA

* DEZ staff estimates

4.2.3.3 Identification and analysis of all relevant activities and projects to be implemented

Projects MEP

MEP Code	Name	Project owner
MEP Projects submitted for funding		
C-T-30	Rehabilitation St. Annabaai quay walls	CPA

Policy actions Others

- Research on the possibilities to develop Bullenbaai
- Renegotiation of concession fees with CPS
- Privatization of CPA
- More marketing effort in order to attract new shipping lines, cruise ships
- Privatization of Curoil

4.2.3.4 Assumptions and risks

Discussions with government agencies and CPS/CPA are underway these concern: CPA/CPA current view on harbor related activities, the areas to be expanded, drafting of a new harbor development plan. Taking the threats and weaknesses from the SWOT analysis into consideration Curaçao's harbor will suffer greatly if no attention is paid to these issues in a timely way. Such a "downturn" (andere term bijv. Gebrek aan snel en adequaat handelen!!!) will have a negative effect on the economy.

4.3 Logistics (E-Zone)

4.3.1 Summary

In 1957 the first legislation on free zones was established. The E-zone Koningsplein was the first free zone in the island of Curaçao. Over the years, it has grown to 87 companies that employ over 760. In the period 1957 to the present the Free Zone legislation has been amended several times. The most recent changes were effectuated in March 2001, whereby also the name was changed from Free Zone to Economic Zone (E-zone). In order to broaden the economic basis of the Netherlands Antilles and to encourage the economic development of the Netherlands Antilles, is it desirable to establish economic zones, to which certain facilities are applicable.

4.3.2 Description and analysis subsector

4.3.2.1 Characteristics of the sector

An E-zone is a site or sites designated as such, where goods can be stored, processed, worked up, assembled, packed, displayed and cleared from bond, or can undergo other treatments, and where or from where services may be provided. Services do not include services with regard to acting as a management board for companies of which the registered office or factual management is established in the Netherlands Antilles, and services with regard to the trust business, and also services of civil-law notaries, lawyers, public accountants, tax counselors and related services.

Legislation: Landsverordening Economische Zones 2000 (P.B.2001, no. 18).

Currently there are five E-zones in the island. The activities can be divided into two parts:

- activities with goods physically in the e-zone;
- services provided via internet.

Table 1 Established E-zone's

E-Zone	Goods	(a) MANAGING/AGENCY	(b) COMPANIES
Free-Zone Koningsplein	Goods	CURINDE N.V.	87
	Services		0
E-Zone Hato	Goods	CURINDE N.V.	26
	Services		0
Airside Office Park	Services	HADCO N.V.	0
E-Commerce Park	Services	Exploitiemaatschappij E-Zone Vredenberg N.V.	26
e-Powerhouse	Services	International Data Gateway N.V.	4

* September 2002

Most companies that are situated in E-zones are extensive users of logistics either by airplane or by ship. Currently, the E-zone in the harbor is facing its physical limits in terms of land for new activities running out. Extension of the e-zone is very important to be able to meet the demand for building space. In addition, the construction of new business accommodations is of the utmost importance. It is also possible that someone

can take land on a long lease, and build his own building in the E-zones managed by Curinde and the Airside Office Park.

In two of the E-zones designated only for services, most of the companies are from the gaming sector. In the chapter for E-commerce there will be an extensive report of this sector.

Curaçao wants to develop towards an international distribution center. Curaçao offers some special physical and fiscal facilities for E-zone enterprises to establish in the island, such as a special profit tax (2%) and no import duties.

4.3.2.2 Government policy with respect to the sector

Curinde NV is a company with the island government as the main shareholder with 85%, and the "Nederlandse Participatie Maatschappij" with 15% of the shares. It operates the E-zones Koningsplein and Hato. The legislation on Free Zones was enforced in 1957 and changed in 1975, 1986, 1997 and the latest change was in March 2001. With this change it is possible to render services (e-commerce) without the requirement of goods being physically in the e-zones.

Curinde NV will be replaced by the Curaçao Economic Development Board (CEDB) (as the manager of the E-zones which are now being managed by Curinde N.V.

The logistics sector is one of the identified target sectors that have the potential to stimulate the economy, by generating foreign exchange, creating new jobs, adding value to GDP, spin off effect, etc. To develop the sector, legislation concerning e-commerce and e-zone has been integrated to make e-commerce activities possible in the E-zone. The preparations have been started for the building of Hall B-2 and A-1 at the E-zone Koningsplein, which is necessary to meet the demand for new business space.

There is an E-zone study group active consisting of:

- policy advisors of departments of the island territory of Curaçao (Economic Affairs (DEZ), Legal Affairs (AJZ), and Urban and Regional Development Planning and Housing (DROV).
- policy advisors of departments of the Netherlands Antilles (Fiscal Affairs (Directie Fiscale Zaken), Legal Affairs (Directie Wetgeving en Juridische Zaken), and Customs)
- a member of the E-Commerce Platform.

The group has been installed by the government of the island territory of Curaçao to advise the government on the criteria that should be considered when given a company the E-zone status (this has already be done), and to advise the government on the things that still have to be worked out by the government of the island territory of Curaçao and the government of the Netherlands Antilles for an adequately functioning of the E-zones. This will lead to the adaptation of the legislation.

4.3.2.3 Stakeholders and other relevant parties

- The companies that manage the E-zones like Curinde, Curinta and Hadco;
- Curaçao Ports Authority (CPA) N.V. is an entity that manages the harbor of Willemstad. They have knowledge of trends concerning the use of the harbor.

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- Curaçao Port Services (CPS) is used for the handling of shipments etc. They provide services for transportation and distribution of goods.
- Government of Curaçao: E-zones can help broaden the economic basis of Curaçao and encourage the economic development.

There are several other entities that have an indirect involvement with logistics in the E-zones such as transport firms and the Chamber of Commerce and Industry.

4.3.2.4 Other relevant activities

Development of E-commerce activities.

4.3.2.5 Available background information, reports and policy papers

- Department of Economic Affairs Curaçao (2002), *The Curaçao Economic Outlook 2002*, Curaçao
- The IDB report, *Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997)*
- Policy document regarding the E-zone legislation, approved by the Executive Council 18 July 2001.

4.3.2.6 Indicators past years

Table 2 Indicators for the E-zone

	1997	1998	1999	2000	2001	2002*
Employment in E-zones						
Goods	n.a.	n.a.	n.a.	650	n.a.	816
Services	-	-	-	-	-	28
Number of enterprises						
Goods	97	112	121	116	n.a.	113
Services	-	-	-	-	4	30

* - September 2002

4.3.2.7 SWOT analysis

Strengths <ul style="list-style-type: none"> • Modern infrastructure E-zones • Tax facilities / Legislation • Investment promotion - Curinde 	Weaknesses <ul style="list-style-type: none"> • Lack of connections to various parts of the world • Customs regulations not WTO compatible • Lack of vision regarding E-Commerce • Lack of telecommunication legislation
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Opportunities	Threats
<ul style="list-style-type: none"> • Expansion Koningsplein by lot Aqualetra, Asphaltmeer or Industrie Park Brievengat • New customs clearing methods • New customs legislation • E-commerce 	<ul style="list-style-type: none"> • High telecommunications tariffs • No Regulatory Board • Red tape (long procedures to get permits)

4.3.2.8 Critical success factors and preconditions

- The improvement of the overall investment climate.
- The possibilities to expand the E-zone Koningsplein by the Aqualetra lot or Asphaltmeer or to establish an E-zone at the Industrial Park at Brievengat.
- The adoption of new legislation regarding customs and WTO compatibility in trade policy as external dependencies (policy of the Government of the Netherlands Antilles).
- Vision regarding E-Commerce.

4.3.3 Planning subsector

4.3.3.1 Subsector Objective(s)

The objective of this subsector policy is to substantially increase the number of firms that establish in the E-zones.

4.3.3.2 Desired future development of indicators

Table 3 Indicators for the E-zone

	2002	2003	2004	2005	2006
Employment in E-zones					
Goods	1080	1134	1190	1250	1312
Services	37	44	53	64	77
Number of enterprises					
Goods	150	156	165	174	182
Services	51	77	114	172	258

4.3.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- Adaptation of the legislation on economic zones.
- The start of a new one-stop window entity for foreign investments (Curaçao Economic Development Board).
- Facilitation acquisition of land for extension E-zone

4.3.3.4 Assumptions and risks

International developments regarding tax legislation, mainly the OECD guidelines against tax havens and money laundering will not interfere with NA legislation

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regarding, amongst others, financial services within the E-zones. This assumption has a medium risk.

4.4 Logistics (Airport)

4.4.1 Summary

Considering the fact that tourism and logistics are two of the most important backbones of the economy of Curaçao, and the crucial role played by the regional airline and the regional airport with regard to those industries, it is obvious that these fields acquire dedicated management.

The Curaçao Airport is very important to the island economy of Curaçao, especially as regards:

- the development of (stay-over) tourism, one of the most important economic activities in Curaçao (about 15 percent of GDP according to the IMF).
- as a crucial part of fulfilling the strategy to make Curaçao 'The Logistic Junction'¹⁹ in the Caribbean.

The first of August 2003, Curaçao Airport Partners (the Alterra consortium) started its operations at the Hato International Airport.

From this date on the usufruct of the airport is officially granted to CAP in turn of a yearly fee and CAP has obliged itself to build a new terminal within three (3) years and to develop the grounds surrounding the airport. Cap already constructed a new VIP and staff entrance were constructed that will reduce the waiting time, the car park was renovated, the departure and arrival hall has been refurbished.

The 29th of October 2003 the official start was given for the construction of the new passenger terminal for 1.6 million passengers per annum (mppa) in accordance with IATA²⁰ Level of Service Standards "C". The new terminal will replace all existing departure and arrival passenger processing, related office and operational functions currently located in the existing terminal.

4.4.2 Description and analysis sub sector

4.4.2.1 Characteristics of the sector

To a small island (economy) like Curaçao, oriented towards tourism and with the aspiration to become a logistic junction, an international airport is of major importance.

The airport is located some five kilometres Northwest of Willemstad. With an area of approximately 2,500,000 square meters, the Airport has one runway with a length of 3,410 meters and a width of 60 meters. The Airport is suitable for all types of aircraft, has clear visibility year round and is operational 24 hours per day. The building comprises separate arrival and departure sections with a capacity of one million passengers per year and a peak handling capacity of four hundred arriving passengers per hour.

¹⁹ Logistic Junction Curaçao (2002), KPMG, Curaçao

²⁰ International Air Transport Association (IATA)

Hato is the home base of the national carrier DCA N.V., (Dutch Caribbean Airline, trade name: Dutch Caribbean Express).

The Alterra Concession

Alterra Enterprises Ltd. is granted a concession to operate Hato on its own account for 30 years. In turn Alterra, or to be more precise: Curaçao Airport Partners NV (CAP) will pay a concession fee to Curaçao Airport Holding (CAH-Curinta) depending on the turnover figures with a minimum of \$1.5 million a year.

Curaçao Airport Partners is a 100% subsidiary of HoldCo. The shares of HoldCo are distributed between: Alterra Enterprises Ltd. 51%, Janssen de Jong Caribbean NV 10% and Trabajos Industriales y Mecánicos ca 39%. Alterra is a joint venture (50%/50%) of the American Bechtel Enterprises Holding and Singapore Changi Airport Enterprise. From now on all these companies will be mentioned as Alterra.

Alterra gets a right of usufruct to the airport and in turn will oblige itself to invest a vast figure (\$35 million) in the airport and the ground around the airport. All of the infrastructure (to be newly built) is and will remain the property of Curinta N.V.

One of the plans of Alterra is to develop the ground around Hato into a so called: 'Airport City'. Besides the departure and arrival terminal there will also be shops, restaurants, hotels, entertainment, etc. This will require a large investment (approximately \$65 million) and a strong partner network, both of which Alterra can provide.

Some other important developments are:

- The start of the construction of a new terminal by Alterra. The building of a new terminal is important, because the old terminal is too small to process the current 1.2 million passengers yearly and is not suited for handling the increase in cargo that is expected if the strategy of making Curaçao a logistic junction works. The new airport operator Alterra will build a new airport terminal, which makes it possible to handle as many as 1.6 million passengers per year.
- Increasing competition in the region, possible through the 'open-sky' policy, can be a positive development for the airport if this leads to more air traffic. For example the entrants to the market by the budget air company Air Holland. Air Holland started a six-time-a-week freight flight service from Colombia (Bogota) and Ecuador (Quito) to the Netherlands (Amsterdam). This is another positive development to fulfil the vision to make Curaçao a Logistics Hub. Also positive are the intensified air connections by American Airline, the new scheduled commercial flights by Air Jamiaca, American Eagle, Bonaire Excel, SLM and Bonaire Eagle.
- More air traffic will almost certainly bring along an increased sale of fuel and other things required by airplanes.
- More air traffic brings more ground handling activities, which is good for local employment and another area of improvement is the handling fee for aircraft. Since 2000, besides DCA, more handlers (Swissport Cargo Services, Antillean Flight Services and Hato Handling) are operating at the airport, competition between them, has reduced the costs and improved the service level.

4.4.2.2 Government policy with respect to the sector

The objective of the government policy is to develop (in cooperation with a strategic partner Alterra) the airport into a competitive airport in the South Caribbean area, with an excellent reputation for efficiency, convenience, safety and security. This objective is part of the bigger strategy to make Curaçao 'The Logistic Junction' in the Caribbean.

The strategic vision of Curaçao as 'the Logistic Junction' can be formulated as follows:

In the light of the further social and economic development, Curaçao wants to develop towards a leading Logistic Junction (air and sea) in the region that provides its clients, companies and people with:

- Extra volumes of products, logistics services and trade;
- High quality value added services;
- International strategic partners.

Curaçao has some unique selling points to become 'The Logistic Junction' in the Caribbean:

- Location: a central location in the Caribbean and between North and South America;
- Relatively stable political and economic climate;
- Relatively well developed infrastructure;
- Skilled and available workforce, mostly multi-lingual;
- Strongly connected, being part of the kingdom of the Netherlands and thus the European Market.

The E-zone developments (see: Logistics E-zone) are also contributing considerably to fulfil this strategy.

Further development of tourism in Curaçao is also one of the important economic policy issues. Especially in case of the development of stay-over tourism, a well functioning international airport is very important.

4.4.2.3 Stakeholders and other involved parties

- Curinta N.V. (CAH)
- Alterra Enterprises Ltd. (CAP)
- Freight handlers
- Airline companies
- Executive Council of Curaçao
- Department of Aviation and Minister of Transport

4.4.2.4 Other relevant activities

No other relevant activities were identified.

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4.4.2.5 Available background information, reports and policy papers

- Curinta NV (1999), *New Passenger Terminal Hato*, Curaçao
- Curinta NV (1995), *Masterplan for the Airport area*, Curaçao
- IMF Policy Matrix (2000)
- Department of Economic Affairs (2002), *Economic Outlook 2002*, Curaçao
- Multi-Year Economic Program Curaçao 2001-2005, DEZ (2001), Curaçao
- *Logistic Junction Curaçao* (2002), KPMG, Curaçao

4.4.2.6 Indicators past year

Table 1 Indicators Curinta

	1990	1996	1997	1998	1999	2000	2001
Turnover (in millions)	12	19	20	20	25	24	25.2
Employment	119	134	135	135	132	130	130
Investments (in millions)	5	6	3	2	4	2.6	3.4

Source: Curinta NV, 2000

Table 2 Total passenger traffic

	1998	1999	2000	2001
Incoming	440,581	442,177	419,466	428,519
Outgoing	459,200	463,190	440,559	437,234
Transito	379,653	368,096	433,070	389,578
Total:	1,281,432	1,275,462	129,5095	1,257,332

Source: Curinta N.V.

Table 3 Freight in kilograms

	1998	1999	2000	2001
Incoming	8,576,065	8,864,853	6,296,132	6,813,143
Outgoing	2,477,516	2,788,784	3,566,022	3,080,563
Total	11,053,579	11,655,636	9,864,154	9,895,707

Source: Curinta N.V.

Table 4 Aircraft movements

	1998	1999	2000	2001
Scheduled commercial flights	13,403	12,798	12,259	11,073
Non-scheduled commercial flights	3,235	3,449	4,057	4,581
General aviation	2,658	2,416	2,412	2,099
Total:	21,294	20,662	20,728	19,754

Source: Curinta N.V.

4.4.2.7 SWOT-Analysis

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<p>Strengths</p> <ul style="list-style-type: none"> • Strategic geographical situation of Curaçao • Location outside the hurricane belt • Political stability • Long runway • The Alterra concession • Good qualification aviation organization IATA • Open 24 hours • Forward Operations Location (FOL) 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Low service level • High tariffs freight • The uncertain (financial) structure of DCA • Services of Customs Department
<p>Opportunities</p> <ul style="list-style-type: none"> • A new terminal • Development of tourism / hotel rooms • The intensified marketing by the CTDB and CHATA • New market: other airport related activities (Airport City) • Ongoing increase in air passenger traffic 	<p>Threats</p> <ul style="list-style-type: none"> • The economic situation in Curaçao • Development of cost structure • Service level Hato • Aviation Policy • The increasing drugs traffic

Strengths

The main strengths of the Curaçao Airport are its geographic location and its hub function as regards to traffic distribution, the quality and length of the runways, suitable for all aircrafts, the fact that it is open 24 hours, the good qualification of the International Air Transport Association (IATA), which is important for tourism. The concession with Alterra is also a definite strength. Another strength is the international confidence that allocation of the FOL at Curaçao gives. International confidence because 'in the eyes of the world' Curaçao will be seen as a strong co-operator in the war against drugs.

Weaknesses

The low service level, the high freight tariffs, the low service level of the Customs can be considered the most important weaknesses of the Curaçao Airport. Another weakness is the uncertain financial position of DCA.

Opportunities

Opportunities for the Airport can be found in the cooperation with Alterra, the building of a new terminal with more capacity, more service, and the development of tourism and the worldwide growth of passenger traffic. Especially the development of tourism is important. The growth in the number of hotel rooms, (plus 423 in 2001 and plus 366 in 2002) in Curaçao and the increase in the marketing budget for promoting Curaçao is considered a big opportunity.

Threats

The bad economic situation in Curaçao, the cost structure of utilities and labour in particular and the ongoing international reports about drug-related issues are threats to Curaçao Airport and to Curaçao as a whole.

4.4.2.8 Critical Success Factors and Preconditions

- The improvement of the (world) economy and the investment climate;
- The fulfilment of the Alterra Enterprises Ltd. Plans; i.e. the terminal to be newly built
- The establishment of more E-zones and the further development of E-zone legislation
- The effects of the Curaçao marketing campaigns initiated by Chata and CTDB
- Oil prices. A change in oil prices will influence the turnover of the airline companies and the Airport.

4.4.3 Planning sub-sector

4.4.3.1 Sub-sector Objective(s)

The objective of government policy regarding the Curaçao Airport is to develop the Curaçao Airport in cooperation with Alterra into a competitive airport in the South Caribbean area with an excellent reputation for efficiency, convenience, safety and security. And as the 'logistic junction' in the Caribbean, as a switch between South, Central and North America

4.4.3.2 Desired future development of indicators

The projections for the coming year with regard to total passenger traffic and the total of flights in term of weight are presented in table 6 and 7.

Table 5 Total passenger traffic

	2001	2002	2003	2004	2005	2006
Incoming	428,519	441,375	454,616	468,254	482,302	496,771
Outgoing	437,234	450,351	477,777	492,111	506,874	522,080
Transit	389,578	401,265	413,303	425,702	438,473	451,628
Total:	1,257,332	1,294,993	1,347,699	1,388,071	1,429,654	1,472,485

Source: Curinta NV
annual growth of 3 percent

Table 6 Take-off weight in tons

	2002	2003	2004	2005
All flights	810063	826264	842790	859648

Source: Curinta NV

4.4.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions Others

- The signing of a concession with Alterra is the most important development for the Curaçao airport. With a (partially) guaranteed yield minimum, investments in the infrastructure of Hato and the training of the workforce much of the above mentioned weaknesses and threats will be neutralized.

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- Improving services and quality of customs by providing courses, technical assistance and training will be done by Alterra
- Realising the Logistic Junction (various stakeholders)

Projects others

- An extensive marketing campaign in the USA by CHATA and CTDB

4.4.3.4 Assumptions and risks

The biggest risk is the possibility of terrorist attacks and/or wars, which will affect oil prices, air traffic and the world economy as a whole.

4.5 E-commerce, and its largest Industry E-gaming, In Curaçao

4.5.1 Summary

E-commerce is the new way of doing business. The governments of the Netherlands Antilles and the Island Territory of Curaçao trust it will contribute to revitalize the economic development in the *international finance services sector and logistics sector*. These sectors have distinguished themselves for their competitive advantage. The objective of E-business/E-commerce activities is to enable business processes to become more effective and more efficient. E-commerce activities are in the forefront of this global trend. In this sense E-commerce activities defined as "doing business transactions on the Internet", can be found in the global economy throughout all economic sectors, thus not characteristic to one specific economic sector.

The government of Curaçao has the ambition to transform Curaçao into the e-commerce island of the Caribbean. To be able to meet this strategic objective a total package of measures must be in place.

Since the installation of the E-commerce taskforce and, subsequently, their report with recommendations, which was published in the year 2000, the public private partnership resulted in implementing several of the proposed conditions. Several in-depth studies were conducted, for example: the cost of utilities, required bandwidth, cost of transportation, demand and supply of labour force, and the outlines of a sustainable marketing strategy. These studies were all aimed at the enhancement of the E-commerce business climate. The ambition to attract Call Centres to create added value in terms of the creation of new jobs and generation of tax revenues for the government, has proven not be of a structured nature.

On a global scale at present there are three profitable Industries active on the Internet. On-line employment recruitment, adult entertainment and online gaming. Since offshore gaming constitutes the largest E-commerce activity established in Curaçao, this document will give a detailed description of the Internet Gaming industry after having discussed the general E-commerce issues.

4.5.2 Description and analysis subsector

4.5.2.1 Characteristics of the sector

Internet Gaming Industry

As already mentioned before, the Internet Gaming Industry forms the main E-commerce activity in the Island. Since the industry is in rapid development and faces several challenges, the industry deserves special attention in this document.

Introduction

Since 1996 the government of the Netherlands Antilles approves of offshore gaming activities and issues Gaming licenses to well-screened Internet gaming operators.

Approximately 30 licenses have been issued, out of which 26 in Curaçao. Worldwide, there are 72 jurisdictions that offer a more or less licensed and regulated environment to the Online Gaming Industry. Curaçao has embraced the industry, expecting it to result in a spin-off of other E-commerce related activities, such as online financial services, online education services, and tourism related online activities and online logistics. The development of the Gaming Industry in the island of Curaçao has enabled the necessary technology infrastructure to be put in place responsibly. Studies conducted by PricewaterhouseCoopers and 'de Galan Groep' and some of the players in the field also underline the above-mentioned theory, in that online gaming is considered an intermediate strategy for the short to medium term, meanwhile creating the opportunity for Curaçao to retrain its human capital in ICT and language skills. This will enable Curaçao in the long term to meet the demand of the more labour intensive E-commerce activities. Considering the strength and opportunities of our main economic pillars, distribution and international financial services, the government is focusing on these sectors to revitalize the economy.

Summarizing, offshore gaming constitutes the largest E-commerce activity established in Curaçao.

Background of the Industry

Not much factual information is known from the Internet Gaming Industry companies, such as their actual numbers, their background and performance. In 1996 when the offshore gaming companies started their activities in Curaçao, the sector consisted of offshore sportsbetting companies. These companies predominantly conducted their betting activities by means of telephone communications. Over the years technology and software development have resulted in a move from telephone based to Internet based sportsbetting activities. Parallel to these developments, Curaçao put its technology infrastructure in place, which resulted in an influx of Internet based casinos and in some of the sportsbetting companies restructuring from telephone based to mostly online based operations. In addition, companies offering other types of Internet gaming activities, such as lotteries, poker and bingo, entered the Island. Over the last year, some of the telephone based sportsbetting companies have left the Island to other locations such as Costa Rica where the employment rates are more attractive. The global industry has reached a stage of maturity which results in, among other things, consolidation of companies. This is also true for several of the older existing sportsbetting companies in the Island. They have merged with companies abroad and moved away to the countries of their partner companies. As might happen in all other industries, some bankruptcies have occurred as well; a general characteristic of a maturing market.

The main reason for the Netherlands Antilles government to issue gaming licenses, is the creation of new employment opportunities and the generation of tax revenues. In order to operate, the gaming company applies for a gaming license which, after thorough screening of the Ultimate Beneficiary Owners and after approval of the intended activities and projected financial statements, it receives from the Minister of Justice. Every license holder is liable to pay a monthly license fee of ANG 10.000,-. The Online Gaming Industry offers direct benefits, in terms of employment, rent/lease of facilities, and infrastructure, indirect benefits from professional support and

services, and is expected to generate a high spin-off to the economy. All revenues come from abroad, thus improving the Balance of Payments.

The motives for the presence of online gaming companies are diverse, Curaçao offers:

1. legal stability;
2. political stability;
3. high-level language skills in, among other things, English, Spanish and Dutch;
4. good reputation;
5. favourable fiscal facilities;
6. high quality physical and communication infrastructure;
7. reliable financial services centre;
8. legal system linked to the Dutch Supreme Court in The Hague.

Present Status

Officially 30 government issued gaming licenses have been issued since 1996, of which 26 were issued to companies operating from Curaçao. Under the articles of the license the license holder has the right to grant third parties a license to operate its online gaming operations from the Netherlands Antilles on the basis of a so-called Information Providers Agreement. The real number of companies operating under these government issued gaming licenses is unknown. Globally, the nature of the Gaming Industry (such as land-based casinos and horse-race betting activities) has always been perceived as controversial. This perception also applies to the Internet Gaming Industry. However, the sector in Curaçao is considered an attractive business opportunity. The establishment of the Curaçao Internet Gaming Association (CIGA) in the beginning of 2002, as a result of an increasing number of companies that are active in the online gaming industry, is living proof of the importance of the Industry to the community of Curaçao and of the fact that the industry wants to be taken seriously.

The Industry, by means of the CIGA, is in the process of presenting itself as a transparent and trustworthy business partner that runs its business in accordance with expected business principles (know your customer) and legal requirements of the Bank of the Netherlands and MOT. In co-operation with the government, CIGA strives to establish a Supervisory body that abides by internationally accepted rules and standards to screen all potential members and adhere to high norms of good corporate citizenship. It also strives to achieve adequate regulation policies and control mechanisms.

CIGA's vision on E-commerce activities is in line with the aforementioned conclusions from the reports as delivered by PricewaterhouseCoopers and 'de Galan Groep'. In their opinion the Internet Gaming Industry serves as the front-runner for other E-commerce activities in the Island. The Internet Gaming Industry is the first to introduce new software, which results in a continuous improvement of skills of their labour force, which enjoys higher than average salary income.

The business offers full time, direct employment to at least 450 locals – and many more seasonal workers during the sports high season - including a certain number of expatriates. The estimated total economic input due to personnel costs within the gaming industry is approximately ANG 20 million per year.

The applied working schedule is flexible and the employees are scheduled according to the flow of the workload. Especially for the labour intensive telephone based sportsbetting operators, revenues are high enough to cover the relatively high cost of doing business in Curaçao (relatively high salary level, relatively high cost per minute of a telephone call).

At present, although Internet Gaming has the advantage that all transactions can be traced, which is not the case with onshore casinos, under pressure from the US correspondent banks and the Patriot Act, the banking sector in Curaçao is reluctant to open accounts for online gaming companies.²¹ There is only one bank in the Island that still accepts Internet Gaming companies. According to this bank, the banking sector is very reluctant to open accounts and allow transactions being processed by the bank. The risk banks run from USA authorities: sanctions such as confiscations of assets the Bank holds in the USA. Approximately 50% of the players are US citizens.

Major challenges to the Internet Gaming Industry

In addition to the already mentioned challenges to E-commerce in Curaçao, the Internet Gaming Industry also faces the following three challenges:

1. Proper regulation and control of the Gaming Industry is not yet established;
2. The processing period to receive a government issued gaming license is too long (approximately 5 months) This obviously only affects new entrants to the industry;
3. Proactive government role. The E-commerce sector expects a more supportive role of the Government of the Netherlands Antilles with regard to the reaction of US officials to the government's policy to allow offshore sportsbetting and online casinos on the Island.

4.5.2.2 Government policy with respect to the sector

Recent actions to promote E-commerce

A number of on-going government actions to promote E-commerce, including the status of the actions, are listed below:

- *Incentives to entrepreneurs*
The government is planning to redesign the current Training Grant Scheme to accommodate E-commerce activities. Government (on a co-sharing basis) will support the upgrading of current workforce and their training cost will be tax deductible. Training grants should be granted directly to the employer, acquisition policy should be subsidized by government; government should issue a folder with all the tax incentives and other benefits for companies that would like to establish in the E-zone area.
- *New Telecommunications Policy*
The Minister of Transportation has drafted a *new telecommunications policy*, with the purpose to deregulate the market. A liberalized telecom market will improve the competitive position of Curaçao. The objective of a deregulated market is to offer high quality telecom services to the customer at a competitive rate. A consultation round resulted in several suggestions to adapt the draft version. The policy document is scheduled to be in place at the beginning of 2003.

²¹ The USA's Wire Act prohibits its citizens to make bets through the use of telephone connections across state frontiers, thus prohibiting sports betting companies to operate freely in the USA.

Pilot project for training 30 people in E-commerce

4.5.2.3 Stakeholders and other relevant parties

- Ciga (Curaçao Internet Gaming Association)
- Cica
- Stimul-it

4.5.2.4 Other relevant activities

According to players in the field the product eCuraçao is still facing several challenges that need to be taken care of. Potential investors are still facing uncertainty with regard to developments such as:

- Reliable and competitive price for bandwidth.* Prices of bandwidth have dropped since the market of telecommunication has been liberalised. The price for 1Mb dropped from ANG 55.000, - by almost 75% to ANG 13.500,- . Still, local ISP's are convinced that this price must be lowered further. At present the ISP's are able to lease at lower rates from USA lease line providers. Speedier technologies offered, such as ISDN and DSL are relatively outdated as compared to newer technology. The future in telecommunications will be wireless Internet. Local ISP's do not expect UTS to start offering wireless Internet due to the high investments the company has in its fixed infrastructure;
- The Telecommunications Act* has not been approved by Parliament;
- The Regulatory Board* has not been established;
- The authority to determine telecommunication rates* is still the responsibility of the junior minister. Transfer of authority and responsibility to the Regulatory Board will take place after the Telecommunications Act receives Parliamentary approval and the Regulatory Board has been installed;
- The unit price of one international call* is too high considering the average volume of calls in a Call Centre;
- The level of salaries for call centre staff* is too high, as compared to Costa Rica and Santo Domingo, to attract the more labour intensive Call Centres;
- The law laying down that all computers and computer related articles are being exempted from 30% import duties was passed as early as 13/9/2002, and will be in place by 1-1-2003;
- The lead-time to receive a (temporary) permit to start operating a business, and also for expatriates to obtain necessary papers, should be reduced.
- Promotion and marketing of the product eCuraçao*, a study conducted by 'de Galan Groep' concludes that the marketing of eCuraçao needs to be focused in the short term on E-commerce activities that are not labour intensive; medium-sized companies, with high levels of transactions and high profit margins. The adult entertainment industry, online gaming and online reservations/tourism and financial services in Holland, Venezuela, USA and Canada are to be targeted. In order to streamline and co-ordinate an effective marketing strategy an e-FIAC needs to be established. When the Curaçao Economic Development Board (CEDB) is founded, e-FIAC will be part of the tasks and responsibility of this investment agency;
- Market study of the demand for IT workers.* It is recommended that the government invests in long term IT education program to upgrade the future workforce to take over leading positions from expatriates. A shortage of sufficient high skilled IT personnel will occur when market demand exceeds approximately

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1000 persons with IT skills. KPMG conducted a study to acquire more insight into supply and demand for future IT qualified workers for Call Centres and Data Centres of different sizes. The report concludes with: "Within Call and Data Centres the focus is on Customer Service Representatives and ICT Operations Technicians. Supply and demand for both types of jobs were investigated and a supply and demand gap was identified. The gap for Customer Service Representatives can be bridged in the short term by conducting a crash course. For ICT Operations Technicians the gap is small and can be bridged by the market itself with people from outside on a structural basis.";

- k. *Firm stand of government towards the USA* that Curaçao will uphold international agreements with regard to MOT.

Available background information, reports and policy papers

- Report eCuraçao: E-commerce framework for the next millennium (Vanenburg report)
- The monitoring and status reports of the Curaçao E-commerce Platform
- The Internet address of the Curaçao E-commerce Platform www.e-Curaçao.com
- The economic policy paper 2000 of Curaçao (DEZ April 5, 2000)
- The report of the "Commissie Nationaal Herstelplan"
- Landsverordening overeenkomsten langs elektronische weg (Ontwerp no.2) and Explanatory Memorandum (No. 3)
- Call Center report volume 1-4 September 2000 Wadley Donovan
- Financial services position paper (CECP working group)
- E-Commerce Logistics Focus Group Session paper (EECP working group)
- Analysis of the competitive position of Curaçao with regard to costs of freight CECP/Deloitte & Touche
- Study into the effectiveness of the handling process in the distribution chain of goods for the local market and export (CECP working group)
- Economic impact study for maritime sectors of the Netherlands Antilles

4.5.2.5 Indicators past year

Not applicable

4.5.2.6 SWOT analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • Telecommunication infrastructure • Rapid and adequate distribution services Political stability • Attractive tax regime • Reliable international financial services sector • Establishment of an E-Commerce Park • International access to highly qualified ICT specialists • Dutch legal system 	<ul style="list-style-type: none"> • Insufficient local qualified IT workforce • Price of bandwidth too high • Lack of international treaties • Limited knowledge/awareness in financial sector of E-Commerce opportunities • Low frequency of air connections • Telecommunication rates as compared to Europe and the USA too high • Relatively high wage level for Call

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<ul style="list-style-type: none"> • High quality of living • Adequate time zone • Below hurricane belt – safe from storms 	<p style="text-align: center;">Centre Agents</p> <ul style="list-style-type: none"> • High utility costs <p>Tough to get paperwork and permits</p>
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • Making use of our competitive advantage in the international finance and logistic sector • Technological developments • Distribution centre or hub for E-Commerce activities targeting South America • Attractive fiscal facilities (NFR/BRK & E-Zone) • Gaming legislation in place 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • Falling behind in technological developments if not continuously monitored and addressed to • Scarcity of land around the harbour for physical E-Zone activities • Doubts of banks as to conducting business with online gaming • European gaming jurisdictions coming into play – Isle of Man etc.

Strengths

To attract E-Commerce activities, sufficient bandwidth is necessary. Recent investment by UTS in the Arcos fibre optic cable resulted in adequate supply of bandwidth. Compared to the region, UTS' basic telecommunication infrastructure is of high quality, distinguishing Curaçao from the rest of the Caribbean. However, as compared to global standards Curaçao has some upscaling to do (M-Commerce). Our harbour has a good international reputation for its fast and reliable handling of goods. Our international financial services sector is making progress in its efforts to meet international standards with regard to its reputation as a trustworthy financial services sector. Both these sectors have a competitive advantage. Next to locations with favourable conditions of doing business, many investors are balancing this with living conditions that resemble their lifestyle at home. The Dutch legal system with regard to the possibility of pursuing cases up to the High Court and Supreme Court gives additional assurance that the system is rather objective and independent.

Weaknesses

Not addressing our weaknesses in a timely and competitive way will put Curaçao behind its competitors. The international finance sector is one of the major pillars in our economic development. However, the full potential of E-commerce has not been explored by this sector. It is considered that a lack of knowledge and awareness of the possibilities is the motive. Call Centres are labour intensive. Due to the relatively high salary level, labour costs will absorb 30%-40% of the total generated revenues. Utility costs are among the highest in the region. Significantly, gaming industry insiders suggest concerns at the lack of adequate banking facilities available to them. In order for Curaçao to develop as an e-commerce distribution centre for the region, the frequency of airlift should increase. Uncertainty with regard to the viability of DCE can have major repercussions for the economy.

Opportunities

Curaçao should leverage more on the competitive advantage of its international financial and logistics services. At present, one major impediment is that Curaçao does not have the status of a distribution hub. It is expected that UTS will further

lower its telecommunication rates by the end of 2002 in order to meet global competition rates.

Threats

By not prioritising the main issues to become E-ready, eCuraçao faces the threat of becoming a follower instead of a leader in the new economy. If Curaçao is not E-ready within a year's time, the gap with other countries might be too big to be closed. In particular, competition is intensifying from European gaming jurisdictions such as the Isle of Man, Gibraltar and the UK.

4.5.2.7 Critical Success Factors (CSF's) and Preconditions

Based on the identification of the SWOT the following CSF's that are key to successful attainment, were identified:

- Continuous improvement of our E-readiness;
- The number of licenses issued;
- Improvement of our quality of service;
- Low dial up cost for Internet usage;
- Availability of skilled work force;
- Competitive prices for telecommunication services and corporate lease lines;
- Speedy procedures for business and residence licenses;
- Doing business with local banks based on principles such as know your customer²²;
- Supervisory Board for the online gaming sector
- Legal system linked to the Dutch Supreme Court in the Hague;

4.5.3 Planning subsector

4.5.3.1 Subsector objective(s)

To transform Curaçao into the main E-commerce island of the Caribbean by:

- Accelerating the implementation of all conditions and prerequisites for Curaçao to facilitate e-commerce transactions.
- Improving the incentive package for companies to relocate to Curaçao.

4.5.3.2 Desired future development of indicators

As a result of the unfamiliarity with E-commerce activities, quantitative indicators to illustrate the macroeconomic effects of E-commerce on the island's economic development were not directly available.

One plan is to develop the Call Centre sector as below:

- a. Establish one 150-seat (two-shift) call centre operation
- b. Create 300 new direct job opportunities followed by more indirect jobs
- c. Generate an additional 15 million minutes per year in-bound telecom traffic
- d. Serve both US and Dutch call centre communities.²³

²² relevant criteria are: a list of the company's shareholders, letters of reference from banks the company is doing business with, proof of good behaviour

²³ Study of bandwidth and other requirements for e-commerce development in Curaçao, PriceWaterhouseCoopers, April 10, 2001

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With respect to call centres these figures can serve as indicators as to whether the sector achieves its goals over time.

The following indicators are specific for E-commerce development:

- Quality of service
- Bandwidth pricing
- New companies
- The revenue level
- The direct, indirect benefits and spin-off to the economy
- Computer penetration
- Job opportunities
- Amount of office space
- Degree of ICT literacy of the workforce
- Internet access spread
- Tax revenue
- Tax incentives

4.5.3.3 Identification of all relevant activities and projects

Policy actions MEP

- Revision current tax holiday act.
The current tax holiday Act is not applicable to E-commerce activities. It needs to be revised to accommodate E-commerce activities (AJZ/DEZ)
- Conduct a study of the impact of e-commerce on the economy (DEZ)
- The level of salaries of Call Center Agents working in the e-zone (DEZ/E-zone)
- Design a brochure for e-investors with all tax information and exemptions of the e-zone (Curinde/DEZ)
- Establish a public- private Supervisory Body to regulate on-line gaming industry (AJZ/Ciga/DEZ)
- Design a uniform postmark for the e-zone as official proof for accepting deliveries (Curinde)
- Redesign current Training Grant Scheme.

Projects MEP

MEP Code	Name	Project owner
MEP Projects in preparation		
C-EC-1	Crash Course E-commerce	CECP

Policy actions Others

- The unit price of one international call should reflect market prices (UTS/Regulatory Board)
- Firm stand of government towards the USA to the effect that Curaçao will uphold international agreements with regard to MOT (AJZ/BBB)

4.5.3.4 Assumptions and risks

None

4.6 International Financial Services

4.6.1 Summary

The international financial services sector has been and still is one of the largest economic sectors in Curaçao. In recent years, its position was seriously threatened by legal developments within the Kingdom of the Netherlands and in the international field. Now that uncertainties regarding tax legislation have been removed it is believed that the sector will regain most of its ground.

4.6.2 Description and analysis subsector

4.6.2.1 Characteristics of the sector

The international financial services sector in Curaçao is composed of 19,079 (Chamber of Commerce, as at July 2002) so-called offshore companies, among which 42 banks, that make use of the tax regime in the Netherlands Antilles and, among other things, also of the tax treaty with the Netherlands. The sector experienced a period of strong growth from 1970 to 1990. For the Netherlands Antilles this meant substantial tax income (amounting to 60% of the government budget in the first half of the 1980s), a large inflow of foreign currency and much (in-) direct employment. The sector employs both highly educated personnel such as lawyers, financial specialists and accountants and many people with a lower education such as clerks and assisting personnel. It also requires the availability of a variety of business services (notaries, tax advisers and consultants).

In 1986 the United States of America cancelled their tax treaty with the Netherlands Antilles, which resulted in a decline of the financial flow and an almost standstill of business coming from the USA. Recently relations have improved. In April 2002 the Antilles and the USA have signed the 'Agreement for the Exchange of Information With Respect to Taxes'. The Antilles view this as the first step towards a new tax treaty.

In order to facilitate new tax treaties the sector and the government jointly developed the New Fiscal Framework (NFR), on which agreement was reached with the Netherlands in December 2000. It has been effectuated on 1 January 2001. As a consequence of this, the tax arrangement for the Kingdom of the Netherlands (Belastingregeling Koninkrijk, BRK) had to be adapted too. This was effectuated on 1 January 2002. The first talks about the NFR started as early as 1993.

With the NFR the so-called offshore regime ends. The international (USA and Europe) battle against tax evasion forced the Netherlands Antilles to modernize their tax legislation in order to shake off the tax haven image. Under the new regime 'offshore' ceases to exist. All companies, local and foreign, pay the same profit tax of 34.5%. Before, offshore companies (most of them companies that qualify under article 14/14A of the Profit Ordinance) were taxed only 2.4 to 3%. For companies registered under the old regime a grace period till 2019 has been provided for. New opportunities for the sector consist of the 'Private Foundation' and an Exempt Company (NABV), which can both be tax-exempt. In addition, a new focus on providing non-financial/non-tax driven offshore services such as information

processing (back-office), is promising.

Clearly, the uncertainty surrounding NFR/BRK (and the initial placement on the OECD black list) has damaged the reputation of the Netherlands Antilles' International financial services sector in recent years. The number of new companies registered has fallen significantly. In the period January-July 2001 739 new offshore companies were registered, while in the same period one year later only 297 new offshore companies were registered.

4.6.2.2 Government policy with respect to the sector

The government of the Netherlands Antilles has expressed the intention to enable the international financial services sector to at least maintain its current size and preferably grow. In this it seeks close cooperation with the sector.

The OECD opinion regarding the tax regime was crucial for the cooperation of the Netherlands. Now that the government has issued a level-one commitment to the Secretary General of the OECD, this does no longer stand in the way. The statement reaffirms the commitment to continue avoiding harmful tax practices and qualifies the Netherlands Antilles as a jurisdiction in clear compliance with OECD standards. The Netherlands has responded positively to this commitment and this has resulted in an agreement regarding the NFR and the BRK. The NFR and the amendment of the BRK are both aimed at growth of the sector. For further support of the international reputation of the sector the government has installed the Supervisory Board of Fiduciary Business for the trust sector.

Besides the agreement with the USA the government has also accomplished that the Antilles were removed from the Venezuelan black list, hereby opening the door to new business from this country. In addition it is expected that a new tax treaty can be signed in the short term.

Since the Netherlands is representing the Kingdom in foreign affairs, this is where part of policy is being made. In reaching tax treaties the Netherlands Antilles is to a great extent dependent on the Netherlands.

More indirect policies to facilitate the sector are the expat arrangement that is available for income tax and the quicker qualification for admittance of foreigners under the LTU ordinance. Under the expat arrangement, certain parts of income are exempt from taxation for foreign personnel.

After effectuation of NFR and BRK the government program contains no further concrete plans or actions for policy regarding the sector.

4.6.2.3 Stakeholders and other involved parties

The sector is well organized. There are two organizations that look after the interests of the sector. These are the Curaçao International Financial Services Association (CIFA) and the International Bankers in the Netherlands Antilles (IBNA). Both have a good connection with the government. The new Supervisory Board of Fiduciary Business will become an important stakeholder. Other involved parties identified are the Department of Finance and the Tax Department (Directie der Belastingen). The

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Minister of Finance is responsible for tax policy and is handling the negotiations with the Netherlands, and the Tax Department has technical expertise in this field. An indirect stakeholder would be the business services sector ((tax) consultants, lawyers and notary offices) in Curaçao that depends on the offshore business for a substantial part of its activities. These professional groups are united in the Netherlands Antilles Tax Advisers (NAVB), Curaçao Bankers Association (CBA) and the Netherlands Antilles Association of Accountants (NAVVA).

4.6.2.4 Other relevant activities

Besides the OECD's Financial Action Task Force (FATF) the Netherlands Antilles are also closely watched by other international organizations such as the Financial Stability Forum (FSF) and the European Commission. In the spring of 2000 an event that attracted much attention hampered the reputation of the Netherlands Antilles and reduced the chances of a new BRK. The Financial Stability Forum (FSF) grouped the Netherlands Antilles with the countries with low-quality levels of legal infrastructure and supervisory practices. Now that the commitment to avoid harmful tax practices has been issued by the government of the Netherlands Antilles, a close co-operation with the OECD to proceed is possible.

4.6.2.5 Available background information, reports and policy papers

- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997) pp. 6 and 28.
- Report of the Commission National Recovery Plan (Rapport van de Commissie Nationaal Herstelplan) (1999) pp. 41-42
- Report to the 2000 Ministerial Council Meeting and Recommendations by the Committee on Fiscal Affairs, progress in identifying and eliminating harmful tax practices, OECD 2000.

4.6.2.6 Indicators past years

Table 1 Macroeconomic Indicators for International Financial Services

	1997	1998	1999	2000	2001
Contribution to the GDP (in millions)	100	121	127	n.a.	n.a.
Contribution to Foreign currency (in million)	461.5	392.6	399.9	426.1	453.4
Government Income (taxes, in millions)	146.8	114.7	124	81.4	87.2

Sources: BNA

For the Netherlands Antilles in general there is a problem with data availability. Several reasons can be pointed out: 1) companies do not publish a detailed annual report or profit & loss account, 2) national accounts are only available with a substantial delay and 3) the sector division in the national accounts and other statistical publications is not compatible with the economic sector division.

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Sector Specific Indicators

Table 2 Sector Specific Indicators for International Financial Services

	1985	1990	1998	1999	2000	2001	July 2002
Total companies	25,552	18,583	20,348	20,676	20,101	19,777	19,079
New companies (per year)			1,460	1,728	892	1123	297
Liquidations			749	664	674		
Deletions by Ch. of Com			937	871	878		
Changed of reg. place			53	38	31		
Bankruptcy			2	5	5		
Re-registered companies			129	128	121		

Source: Chamber of Commerce and Industry Curaçao

* Usually not physically present in Curaçao

4.6.2.7 SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Political stability • For companies qualifying for transition period: attractive offshore tax regime • NFR • Tax treaty with the Netherlands and Norway • Professional financial and business services • Active e-commerce and e-business policy 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Red tape with government • Lack of more tax treaties • Social problems in the island
<p>Opportunities</p> <ul style="list-style-type: none"> • New opportunities under NFR • Technological developments (e-commerce) 	<p>Threats</p> <ul style="list-style-type: none"> • Proliferation of small offshore centers (OFCs) • Decrease of comparative advantage OFC's due to deregulation of financial and capital markets, opening of markets, reduction of onshore tax rates and international cooperation • Tax competition worldwide • Reorientation of international activities of banks • Concentration of financial activities • International tax policy developments

Strengths

The strengths mentioned have contributed to the build-up and continuation of the international financial services. A strong constitutional relationship with the Netherlands guarantees a certain level of political stability. After the islands were granted self-government, that implied a democratic system based on the Dutch

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system. The attractive offshore tax regime for the transition period and professional financial and business services offered, used to be a strong comparative advantage of the Netherlands Antilles. However, nowadays the competitive advantage regarding other OFC's is less distinct. Nonetheless, it is expected that the NFR will boost the sector again. In recent years the island government has expressed its intention to develop Curaçao as the e-commerce center of the region. Since e-commerce businesses could use the infrastructure, it would certainly stimulate the international financial services.

Weaknesses

The government does not have an active approach towards facilitating and attracting financial offshore business. In addition, once a business does decide to register in Curaçao, it is faced with strict procedures regarding working permits. The lack of more tax treaties, the Netherlands Antilles only have treaties with the Netherlands and Norway, constitutes a limit on activities. Social problems such as criminality and poverty are effecting the quality of life which makes it more difficult to attract and keep highly qualified personnel.

Opportunities

The largest opportunity for the international financial services sector is without doubt the NFR. It will open the door to new tax treaties around the world. Another opportunity is the fast technological development that adds to the ways business can be conducted. For offshore banks the financial flows that will naturally accompany e-commerce, will be an opportunity.

Threats

A threat (not all stakeholders agree) would be the growing number of small OFC's that enter the market aggressively. The international financial services sector in general suffers from onshore competition and from international banks reorienting and concentrating their activities. This is caused by decreasing offshore profits and competition that forces banks to cut costs. As the international financial services sector is a business in which reputation and confidence are keywords, the placement on the black lists was a serious setback that will take some time to recover from.

4.6.2.8 Critical Success Factors and Preconditions

- New tax treaties will be needed to increase business.
- E-commerce / e-business infrastructure to enable the sector to follow and take part in the worldwide trends.
- Well developed financial & business services sector to support the offshore business.
- A well trained labor force in the field of accounting, business administration and law on a secondary and higher level.

External dependencies:

- Central Government for keeping a good relationship with the Netherlands regarding the NFR and BRK.
- Central Government for proclamation of opportunities and in distribution of promotional material

4.6.3 Planning subsector

4.6.3.1 Subsector Objective(s)

The government has the objective to maintain the international financial services sector as one of the pillars of the Curaçao economy. This means the downward trend has to be halted to get the sector to grow again. Indicators for this development would be tax income from the international financial services, foreign currency inflow.

4.6.3.2 Desired future development of indicators

Table 3 Sector specific indicators for international financial services

	2002	2003	2004	2005 and further
Taxes paid (in millions)	>87.2			>125
Operational Income (in millions)	>375			>375
Total foreign currency inflow (in millions)	>453.4			>500

Further research is needed to gather/develop more indicators of the sector developments.

As can be read from table 1 the downward trend in foreign currency received has bottomed out in the late nineties, but government income from the sector is still worrisome. Now that the NFR and the BRK can be fully utilized, tax income is expected to recover too, although experts stress that 2002 will show only slightly improved figures. Experts are more positive about 2003 and further.

4.6.3.3 Identification of all relevant activities and projects to be implemented

Policy actions Others

- The Erasmus Study Center for Antillean and Aruban Tax Law (ESAAB) is operational at the Erasmus University of Rotterdam, the Netherlands.
- Now that the NFR/adapted BRK are activated, promotional activities, in which the government should take part, will have to take place. The sector is planning on road shows, brochures, conferences, articles and advertorials. The government is expected to support the campaign by having the Foreign Relations Bureau (BBB) take care of distribution of the brochures to the embassies and consulates of the Kingdom of the Netherlands and by proclamation of the opportunities by members of the Government.
- A private sector taskforce (4 persons) to actively approach other countries to negotiate tax treaties. The OECD has been requested to identify candidate-countries.

4.6.3.4 Assumptions and risks

See part on "Critical success factors and preconditions"

4.7 The Oil Industry

4.7.1 Summary

The oil industry plays an important role in the economy of Curacao. This is not only for its direct and indirect labor demand, foreign exchange and history, but also for its dominant view and environmental influence. Until the year 2019, there is a lease-contract between Petróleos de Venezuela S.A. (PDVSA) and Refinería di Kòrsou on behalf of the local government. This contract can be extended if both parties wish so. BOO and IRUP are important projects for the future of the oil industry and the energy production for the population. A strategic study of the implications of a decision to the effect of closing down the refinery after 2019 is desirable. Furthermore, a study of the possibilities of gasification is advisable, in order to reduce pollution in downwind areas of the refinery, and to produce clean energy and help to clean up the asphalt lake.

4.7.2 Description and analysis subsector

4.7.2.1 Characteristics of the sector

Since 1916, there has been an oil refinery in Curacao of which Shell NV was the owner until 1985. The Island Territory of Curacao bought the refinery for the symbolic amount of one guilder in 1985. During its prosperous years, the Oil Refinery accounted for 20% of total employment in Curacao. In 1986 the Oil Refinery was leased by PDVSA for 5 years. This was meant to give both the owner and the operator the chance to study the long-term viability of the refinery. After 5 years it became clear that the refinery can be viable if the operational costs can be reduced and the needed investment can be made. Based on the outcomes mentioned above, the Island Territory of Curacao prolonged the lease to the Venezuelan State oil company Petróleos de Venezuela S.A. (PDVSA) by Refinería di Kòrsou N.V., the sole owner of the Refinery, in its turn owned by the Island Territory of Curaçao. The operating company is Refinería Isla SA, a company 100% owned by PDVSA. The Refinery is one of the largest employers in the Curacao economy.

4.7.2.2 Government policy with respect to the sector

Until the year 2019, the government is contractually bound to the refinery. The government also has to meet the obligations in the contract with regard to, for example, the investments in the BOO project on the premises of the refinery. On the other hand, Refinería Isla SA has the obligation to invest in the upgrading of the premises, known as the IRUP program.

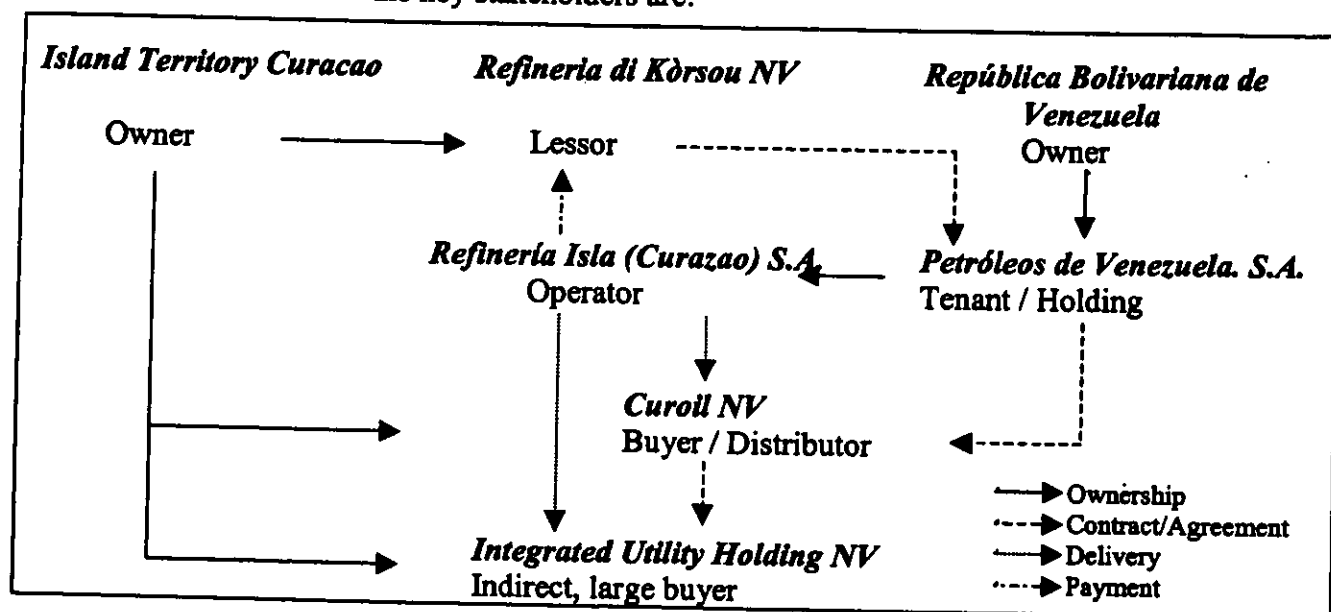
The Island Territory of Curacao is the sole shareholder of the local oil/gasoline distributor Curoil NV.

4.7.2.3 Stakeholders and other involved parties

In the oil industry there are several identified stakeholders. Firstly, there is Refinería Isla (Curacao) S.A. that operates the refinery, which Petróleos de Venezuela S.A. leases from Refinería di Kòrsou, which are a second and a third stakeholder. Curoil is a stakeholder because the company is responsible for the oil distribution in Curacao. Integrated Utility Holding is the main buyer of oil products of Curoil. Other

stakeholders that can be identified are the pump holders and local companies working (almost exclusively) for the refinery.

In a schematic overview the key stakeholders are:



4.7.2.4 Other relevant activities

The Island Territory has decided that Curoil N.V., as the local distributor and only local buyer of the refinery will be privatized in the short term, but this privatization process was put on hold due to the high priority on privatization processes of other State Owned Enterprises (SOE's).

Further activities relevant to the oil industry are:

The asphalt lake

Taking into consideration the fact that Curacao is investing in the development of its tourist industry and based on the fact that today's tourists are becoming more and more environment-minded, a solution regarding the soil pollution due to the asphalt lake has to be found as soon as possible.

4.7.2.5 Available background information, reports and policy papers

- The Curacao Economic Outlook 2000,
- The IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997)
- Economic Policy 2000 (Economische Beleidsvisie Curacao 2000) of the Island Territory
- Publications of the Central Bureau of Statistics (CBS Statistical Yearbooks)
- A study of the macroeconomic effects of the refinery upgrading projects (PriceWaterhouseCoopers)

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4.7.2.6 Indicators past years

Table 1 Macroeconomic indicators for the oil sector

	1990	1996	1997	1998	1999	2000	2001	2002*
Labor (No. of permanent employees)	1730	1410	1323	1219	1117	1056	1044	1070
Investments** (in millions of ANG)	35.4	73.2	44.3	31.9	29.4	144.2	118.5	73.8
Payments to Island Government (in millions of ANG)	n.a.	28.3	25.3	22.5	23.2	21.7	27.1	26.8
Payments to Central Government (in millions of ANG)	n.a.	7.7	8.5	7.3	7.7	7.5	7.3	7.0
Refinery Rent (in millions of ANG)	19.7	21.5	21.5	21.5	21.5	26.8	26.8	26.8

Source: Refinería Isla S.A.

* estimate

** Includes neither BOO investments nor the RDK share of environmental projects

Table 2 Sector Specific Indicators for the oil industry

	1990	1996	1997	1998	1999	2000	2001	2002*
Refinery capacity (brl/day x 1000):								
- Installed (only for brief periods)	320	320	320	320	320	320	320	320
- Sustained (over longer periods)	250	250	250	250	250	250	250	250
Crude Processing (brl/day x 1000)	197.8	186.4	212.3	220.8	208.0	209.6	229.0	200
Utilization rate % (crude processing/ sustained capacity)	79.1	74.6	84.9	88.3	83.2	83.8	91.6	80.0
Crude oil price (avg.) (\$/brl)	n.a.	18.13	15.81	10.76	15.17	24.31	18.91	20.5

Source: Refinería Isla S.A.

* estimate

4.7.2.7 SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Growing market for oil products • Contribution to direct labor, indirect labor and foreign exchange • Cost efficiency and productivity • Positive effect on Exchange Balance 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Environmental issues in lease contract • Dependency on oil policy OPEC • The technological state of the refinery
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<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • BOO – cheaper utilities • IRUP – upgrading refinery* • Environmental upgrading • Higher quality products 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • Tourism • Public Health • Environmental investments
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*The IRUP project will upgrade the refining process to comply with improved production, safety and environmental standards

Strengths

Market developments in the Caribbean will continue to improve for oil products. The refinery in Curacao is one of the largest in the region and rather cost-efficient as compared to other refineries.

Although direct and indirect labor in the oil industry is decreasing, it is still of relatively great importance. The salaries of the employees and the payments of supply and service companies positively influence the foreign currency balance.

Weaknesses

Weaknesses that can be identified are the environment and environmental issues in the lease contract with PDVSA.

In their 2003-2008 plans PDVSA is addressing these issues in order to comply with the environmental regulations as laid down in the nuisance permit. Environmental projects will be funded equally by PDVSA and the government represented by Refineria di Kòrsou (The government company that owns the refinery).

Opportunities

Opportunities that can be identified are the Build Own & Operate program, which will provide the refinery with the necessary utilities and provide the Integrated Utility Holding (IUH) with cheaper electricity for the community of Curaçao. Another program is IRUP (Integrated Refinery Upgrading Program). This program aims at reducing the water and soil contamination in the refinery, reduce the stench coming from the refinery, increase safety aspects and increase the gross margin of the refinery. It also creates the opportunity to capture more demand for oil products. The program is a valuable step in the reduction of the pollution from the refinery and a great contribution to further development of areas such as Piscadera and Curasol for Hotel/Tourism. This is seen as a challenge for the future in which tourism and oil refinery can co-exist.

An additionally identified opportunity is the future demand for lower sulphur gasoline and gasoil. Here PDVSA has developed conceptual projects to adapt existing installations and construct new ones in order to meet the new specifications that will be applicable at the beginning of 2005. The projects are planned to be in operation at the end of 2004, beginning of 2005.

Threats

According to the stakeholders the largest threat is based on the risk for massive protest of the population against the pollution and its impact on the environment and the public health. This is based on the fact that the areas downwind of the refinery, could have been used for tourists and commercial activities, and the fact that today's

tourists and investors are becoming more environment-minded. Well aware of these threats the refinery developed their 2003-2008 plans incorporating the necessary projects to reduce particulate and sulphur dioxide emissions from the refinery stacks that are causing the pollution.

4.7.2.8 Critical Success Factors and Preconditions

- In the long term, critical success factors are the ability to keep up with the necessary technical and environmental investments to meet international product specifications and comply with local environmental regulations.
- In the short term, critical factors are the ability to further reduce cost and improve the refinery margin.
- PDVSA regards the maintenance of the lease contract as a critical success factor. The government has the obligation to contribute to the funding of the environmental projects with 50 %.

4.7.3 Planning subsector

4.7.3.1 Subsector Objectives

Two objectives can be identified. The first is to keep an oil industry until the year 2019, which will be profitable for both PDVSA and Curacao.

The second objective of the oil sector is that the government should develop a strategic view of what the consequences would be if a decision should be made to close down the refinery after the year 2019.

4.7.3.2 Desired future development of indicators

Table 3 Future indicators

	2003	2004	2005	2006	2007
Occupation rate (%)	91	91	91	91	91
Direct Labor (No. of permanent employees)	1057	1041	1017	985	985
Investments* (in millions of ANG)	71.6	71.6	70.3	74.0	50.6
Contribution to foreign exchange (in millions of USD)	110	110	110	110	110
Crude Processing (Brl/day x 1000)	207	210	210	210	210

Source: Refinería Isla S.A. and Refinería di Kòrsou

* Includes neither BOO investments nor the RDK share of environmental projects

4.7.3.3 Identification of all relevant activities and projects to be implemented

Projects and policy actions others

- Another relevant activity is that IUH, between 2001-2005, will invest over ANG 500 million²⁴ in water and electricity production. This is even more than the refinery will do. For tourist, environmental, public health and strategic reasons it would be wise to adopt a study on the strategic issue how to handle the refinery after the year 2019.

²⁴ Source Aquallectra plan 2020

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- PDVSA, next to standard maintenance investments, invests ANG 20-25 million yearly in smaller projects. For the next five years, the refinery will also concentrate investments on the quality of its products, due to a shift in demand from low-quality to higher-quality products and on environmental projects.
- Refineria di Kòrsou has made a proposal regarding a study concerning the viability of a gasification process to eliminate current pollution downwind of the refinery and to use it as a source of clean energy. The gasification process may also be useful in a cleaning effort of the asphalt lake.
- The government should undertake a strategic study of the consequences when it should be decided to close down the refinery after the year 2019.

Assumptions and risks

None

5 Supporting Policies (D)

5.1 Education as a condition for economic development

5.1.1 Summary

Education is perhaps the single most important vehicle to allow social mobility. Furthermore, the educational system and, in particular, vocational education is an essential provider of skilled labor in a service-oriented economy. Proper functioning of the labor market requires an educational system that can meet the demands for skilled labor. However, the educational system presently lacks this ability. Therefore, a major reform of the vocational educational system is currently taking place. Important features of the new system will be: improved accessibility (more persons enter the system), extension of the learning period (and thus better and higher skilled persons), adequate housing facilities and school inventories, curriculum adjusted to meet the demand of skilled labor.

The effects of the educational reform will not be realized within short. This requires additional training programs to fulfill the demand. The growth sectors in which this demand is expected to increase, are e-commerce and tourism.

5.1.2 Description and analysis subsector

5.1.2.1 Characteristics of the sector

The main deficiency of the formal system is that it delivers few professionals of whom a substantial amount is not sufficiently skilled to enter the labor market. This is of great concern, since the quality of the labor force is a very important input in the economic process. The economy demands a well-educated labor force, which should be supplied by the educational system. Unfortunately, a serious mismatch between supply and demand exists at present. Unemployment and vacancies exist side by side. This mismatch is caused by various factors, among which the incapability of the educational system to deliver the required numbers and quality of professionals. Lack of sufficient numbers is caused, among other things, by lack of information concerning the number of personnel needed and lack of training capacity within the various institutions. Less adequate quality is, among other things, caused by outdated curricula, lack of adequate housing and equipment and lack of adequate in-service training of teachers.

The system for vocational education consists of vocational preparatory education (BVO), secondary vocational education (MBO) and apprenticeship training (FEFFIK). Together with secondary general preparatory education (MAVO), BVO has been integrated into preparatory secondary vocational education as of August 2002 (VSBO). MBO and FEFFIK will be integrated into secondary vocational education.

The educational system furthermore includes pre-school education, special education (for mentally challenged students), Foundation based education and Higher education

at Bachelor's and Master's level. These are not discussed here, since the focus lies with vocational education.

Outside the formal system a wide range of courses are being offered, which are addressed in the sections dealing with the various subsectors. Notably, the hospitality sector and the e-commerce sector are specific sectors that require specifically skilled labor. These sectors will be addressed specifically with regard to their training needs.

5.1.2.2 Government policy with respect to the sector

The goals of the reform of the educational system are to increase the level of education of the labor force and to improve the functioning of the labor market by matching supply and demand. This will be achieved by e.g. investing in new curricula, infrastructure facilities and by creating a dialogue structure with the private sector to keep the educational system focused on the needs of the labor market. The policies for the reform of the educational system have been determined by the central government's Ministry of Education in cooperation with the island governments.

These policies have been translated into a multi-annual education programme (2001-2006). Specific projects for each island have been prepared by the island departments of education, which as of May 1, 2002 are executing these projects with funding from the Netherlands.

The overall picture of the educational system after restructuring will be as is presented below.

Figure 1 New Educational System

Indicative age group	New Educational System		Indicative age group
20 -24	Universiteit <i>University</i>	Hoger Beroepsonderwijs <i>Higher Vocational Education</i>	20 -24
14/15-17/18	VWO <i>Secondary Education</i>	HAVO Secundair Beroeps-Onderwijs (SBO) <i>Secondary Vocational Education</i>	16-20
		Vorbereidend Secundair Beroepsonderwijs (VSBO) <i>Preparatory Secondary Education</i>	14/15-16
12-14/15	3e cyclus Funderend Onderwijs <i>Third cycle Foundation Based Education</i>		12-14/15
8-12	2e cyclus Funderend Onderwijs <i>Second Cycle Foundation Based Education</i>		8-12
4-8	1e cyclus Funderend Onderwijs <i>First Cycle Foundation Based Education</i>		4-8

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Table 1 Translation Dutch Educational Terms

Dutch	Dutch Abbreviation	English
Funderend Onderwijs	FO	Primary School
Basisvorming		Secondary Education (First two years); will become Foundation Based Education 3 rd cycle
Voorbereidend Secundair Beroepsonderwijs	VSBO	Preparatory Secondary Vocational Education
Middelbaar Algemeen Vormend Onderwijs	MAVO	Secondary General Preparatory Education
Lager technisch onderwijs	LTS	Lower technical education
Beroepsvoorbereidend Onderwijs	BVO	Vocational Preparatory Education
Secundair Beroepsonderwijs	SBO	Secondary Vocational Education
Middelbaar Beroepsonderwijs	MBO	Secondary Vocational Education
Hoger Algemeen Vormend Onderwijs	HAVO	Higher General Preparatory Education
Voorbereidend Wetenschappelijk Onderwijs	VWO	Preparatory Scientific Education
Hoger Beroepsonderwijs	HBO	Higher Vocational Training
Universiteit	WO	University

VSBO and SBO

The most important educational reform from the perspective of the labor market is the introduction of the VSBO (Preparatory Secondary Vocational Education) as of August 2002 and SBO (Secondary Vocational Education) in later stages. VSBO has been formed from MAVO (Secondary General Preparatory Education), LTS (Lower Technical Education) and BVO (Vocational Preparatory Education). Changes are evident. The LTS and BVO produce professionals. The new VSBO prepares students for the SBO. This means that students who have finished the VSBO have not yet learned a profession and cannot yet enter the labor market. An exception will be made for those students who are not expected to be able to follow the regular VSBO curriculum. For these students VSBO is offering a hands on educational program (Arbeidsgericht Onderwijs, AGO). This program started in August 2002. However, a limited amount of students have enrolled due to the limited capacity of this program.

SBO will be formed from the present MBO (Secondary Vocational Education) schools and the government subsidized training institute Feffik. The MBO schools do the vocational training and Feffik is responsible for the apprenticeship training.

The new structure is presented in the SBO Policy Paper (SBO Beleidsplan) of the central government's Ministry of Education (January 2000). Presently new legislation is being drafted to create the foundation for the new SBO structure. The SBO qualification structure will be more differentiated than the former MBO, because it has to cater for all students who leave the VSBO. SBO will, therefore, have to cater

for approximately double the number of students as compared with the MBO. SBO will be modular in structure. Four levels exist and each level has its own certification. This means that after passing the exams students from each level can enter the labor market.

The aforementioned learning programs differ in the duration of the practical training. Practical training of students in the apprenticeship-training program is more than 50% of the total training time. Students in the vocational training program have a minimum practical period of 15% of total training time. Both programs, however, lead to qualifications at the same four levels mentioned earlier.

The policy of the "SBO beleidsplan" indicates that Feffik will be fully integrated in the new structure of qualification and national legislation. In the new structure all schools may offer both programs. Because of the small scale of the island and to prevent cost inefficiency the line of policy is not to have the same trade in separate schools. Equipment can, therefore, be used more cost-effectively. The new structure will only work well if all existing institutes in this field are integrated in the same institutional framework. No steps have been taken in this direction, however. School administrations, however, have agreed to cooperate more closely within the new SBO.

Council for Education and Labor

In order to stimulate proper functioning of the labor market, the Ministry of Education has proposed the establishment of a Council for Education and Labor (Raad voor Onderwijs en Arbeidsmarkt, ROA). This Council will be tripartite in nature, consisting of five representatives of government, five representatives of the private sector and school administrations, and five representatives of the labor unions. The task of the Council is to advise government on developments on the labor market, the formulation and recognition of (new) curricula and the promotion of traineeships in the private sector, in order to synchronize the demand with the availability of labor. Instruments available to the Council are: the execution of labor market surveys and other monitoring instruments. The Council receives secretarial support from the secretariat of the SER.

The Council will have three subsidiary Councils that will represent the islands of Curaçao, Bonaire and the Windward Islands. The subsidiary Council for Curaçao will consist of nine members; three members of the private sector, three members of labor unions and three members of government. The subsidiary Councils advise the Council on issues pertaining to their respective island territories.

The ROA was officially established by the Council of Ministers of the Central Government in the fall of 2002.

5.1.2.3 Stakeholders and other involved parties

Education

Island Departments

The island department responsible for educational policies, including vocational training policies, is Servisio Asuntunan di Enseñansa (Island Department for Educational Affairs). The Island Government has delegated to the Fundashon pa

Inovashon di Enseñansa (Foundation for Innovation in Education, FIde) the responsibility for giving direction to and carrying out all educational reform.

School administrations

The schools for vocational training are the responsibility of various school administrations among which the "R.K. Centraal Schoolbestuur" (RKCS) (Roman Catholic School Administration) and "Dienst Openbare Scholen" (DOS) (Public School Administration) are the most important.

Feffik

Feffik is a foundation responsible for the practical learning program (Apprenticeship scheme or Leerlingstelsel).

Tourism sector

CTB

The Curaçao Tourism Bureau (CTB) conducts, among other things, surveys to determine the need for personnel in the hospitality service and forecasts for hotel construction and the resulting number of new hotel rooms.

ICT sector

CICA

The Curaçao Information & Communication Association (CICA) is the business association of ICT service providers.

CISP/Stimul-IT

The foundation CISP and the executing bureau Stimul-IT coordinate all promotional activities of the ICT sector on behalf of the government.

Tourism Human Resource Development Board

Consulting platform for government and private sector on labor market issues within the hospitality industry.

5.1.2.4 Other relevant activities

Various types of skilled workers are also needed in the area of construction and building. It is, therefore, important to know the number of workers per trade for all building and construction related activities. Information on and phasing of all planned building and construction activities (bouwstroomplanning) should therefore be known. A report was prepared in 1997 entitled: Inventarisatie manpower behoefte Metallurgische sector, by DEZ and DAZ. This report later formed the basis for the manpower assessment for the BOO/IRUP project, for which a training grant was provided by the Dutch government. The collection of information on building and construction activities has not continued, however, and it is deemed necessary to initiate this process again in order to determine future manpower needs.

5.1.2.5 Available background information, reports and policy papers

- SBO Policy Paper (SBO Beleidsplan), Department of Education, January 2000
- Room Inventory forecast, CTDB, October 2000

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- Reorganization and Modernization of Secondary Vocational Training Curaçao (Reorganisatie en vernieuwing MBO Curaçao), MBO Commission/Zadkine Contract, January 1999

5.1.2.6 Indicators past years

A base line study is presently being carried out by IMD to formulate indicators for the educational program.

5.1.2.7 SWOT analysis

Strength:

- High priority governments
- well-defined financing program
- priority Dutch government (funding)

Opportunities

- more local professionals

Weakness

- inadequate school facilities
- emigration of youngsters

Threats

- influx of foreign labor

5.1.2.8 Critical Success Factors and Preconditions

- Good coordination between Central and Island Governments regarding educational policy
- Modernized Secondary Vocational Education System (SBO)
- Adequate infrastructure SBO
- Sufficient additional training capacity for training required number of hospitality personnel
- Sufficient additional training capacity for training required number of ICT sector personnel
- One institutional framework for SBO
- Incentives for call centers such as the financing by the government of the training of the personnel required.
- Establishment of Council for Education and Labormarket (ROA)

5.1.3 Planning subsector

5.1.3.1 Subsector Objective(s)

As stated before, the objective of the educational reform is to increase the level of education and to meet the demands of the labor market.

5.1.3.2 Desired future development of indicators

Below the indicators for hospitality personnel are presented. These indicators are based on a substantial though very conservative increase of 1000 rooms in the coming five years. Indicators for Hospitality Personnel are based on 1000 new hotel rooms.

Furthermore, it should be realized that in the present situation also a shortage of hospitality personnel exists. Estimates vary between 400 and 500. Of this number a substantial amount are at middle management level.

The e-commerce sector requires system administrators and network administrators, but also personnel that have received basic training in keyboard skills and in languages. The implementation of ICT in the educational system is a core objective of the project plan for VSBO/SBO.

In a recent study commissioned by the Curaçao E-commerce Platform, the estimated amount of low-end Customer Service Representatives (CSR) has been calculated at 1000 over a five-year period. Since the formal educational system will not be able to deliver sufficient capacity at short notice, adult education programs are required.

5.1.3.3 Identification and analysis of all relevant activities and projects to be implemented

Projects MEP

Several projects are in preparation or in progress, aiming to bridge the gap on the labor market. These projects are primarily listed within their respective subsectors, but since they also meet educational goals, they are listed below.

Training project: Crash Course Horeca

Provides basic skills for a position in the hospitality industry, such as front office skills, room attendance, basic food production, bartender and basic waiter skills. Currently, some 130 persons have successfully concluded phase one and two of the course with funding from the Dutch government. A third phase is expected to continue in 2003, prior to the high season.

Status: in progress; MEP-code: C-T-42

Project: Human Resources Strategic Plan

Provides the development of a Human Resources Development system to monitor specific personnel skills required by the tourism industry in a specific period. These data are to be used in the development of curricula for the formal educational system. Furthermore, a multi annual training program will be implemented to improve basic skills of personnel working in the hospitality industry. Status: project file submitted to Dutch government, pending appraisal.

Status: submitted for funding; MEP-code: C-T-41

Project: Customer Service Representatives E-commerce

Provides training of basic language skills and service attitude and basic knowledge of computer software to 1000 Customer Service Representatives in the E-commerce sector.

Status: in preparation; MEP-code: C-EC-1

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Besides these growth sectors two other projects with major training components are worthwhile mentioning, since they contribute to a more competitive labor force. These projects are:

Curaçao Quality Foundation and Investors in People

Provides a knowledge center on quality management systems and the execution of a quality system for personnel management (under license from Investors in People UK). Status: in preparation; MEP code: C-T-25

Green Globe certification program for hotels

Provides training to hospitality workers in the area of environmental awareness as part of a wider approach including technical improvements to the hotel infrastructure. Status: funding denied by Dutch government, appeal submitted; MEP code: B-CP-1

New SBO Legislation

SBO Legislation is being drafted at the level of the Central Government. This legislation has to be in place to start modernizing the vocational education structure.

5.1.3.4 Assumptions and risks

- Adequate implementation capacity of educational sector for implementing reform available (risk low);
- Poverty trap hampering school enrollment eliminated (risk high)
- Sufficient funding for training projects in anticipation of structural educational reforms (risk medium)

5.2 Environment

5.2.1 Summary

The state of the environment requires special attention as regards the impact it has on the economic development of Curaçao. Attention is particularly required in the areas of waste treatment, oil, sustainable tourism and sustainable energy. Recycling practices are increasing, although processing methods should be further investigated and implemented. A pilot project is underway to recycle building materials into road construction materials. A cost benefit analysis of the oil industry is required for adequate policy development for the oil sector and the tourism sector.

Sustainable tourism is promoted through incorporating environmentally friendly practices in business operations. This can vary from implementing energy saving applications in hotels (Green Globe, Ice Cube project), developing alternative sources of energy (Ecolodges Porto Mari) or adhering to Golden Rules for sustainable tourism (www.natuurlijkantillen.info). Funding schemes for sustainable energy will be investigated to promote investments by private companies in sustainable energy (Aqualectra project). Funding of management of nature parks (land and water) will be separately investigated to determine the viability of a trust fund for park management. Finally, the island department for environmental affairs needs to be upgraded in order to be able to coordinate the development and execution of environmental policies.

5.2.2 Description and analysis sub sector

5.2.2.1 Characteristics of the sector

Accurate data on the state of the environment is fragmented and not readily available. However, in its recommendations of 1997 the IDB has noted that the environment is under pressure and urgent measures need to be taken. It states the following:

“The condition of the environment is of fundamental importance to the island because of the fragile ecosystems on which the island is based and the implications for tourism and other economic activities. The country has been slow in developing an environmental awareness and significant damage has been done as a consequence of business practices in refining, for example. Major environmental priorities include the development of adequate sewage and waste treatment and cost-effective production of energy from non depletable natural sources such as wind and sun.”

Curaçao has a number of general and more specific environmental problems.

Pollution

Air pollution by the oil refinery Isla poses health risks to residents living downwind. The stench and smoke pollution caused by the refinery also has a noticeable impact on areas in which several five stars tourist hotels are located. Furthermore, the harbor where the cruise ships moor is polluted by oil. The harbor is polluted in a lesser degree by the dumping of waste from boats. A section of the Schottegat Bay is heavily polluted (asphalt lake)

Lack of energy saving technology

New energy saving technology is not commonly applied in the tourism sector. This is of particular concern to the Curaçao Hotel and Tourism Association (CHATA) since energy costs are the second largest cost factor for hotels (after personnel costs). It

seems that available commercial financing of these investments is not attractive to entrepreneurs.

Recycling potential not fully utilized

Recycling potentials of waste from households and companies are not fully utilized. In other areas recycling is hardly taking place. Especially car wrecks are a burden to the environment, leaking oil and chemicals, but also rapidly taking up space in the waste disposal site of Malpais.

Insufficient capacity Environmental Department

The organizational capacity of the Environmental Department is insufficient to perform adequately.

The island government has not been sufficiently effective in dealing with these problems, although various improvements have been achieved over the past few years.

5.2.2.2 Government policy with respect to the sector

The principal and most relevant environmental policy plan is the Multi-year Environmental and Nature Policy Plan of the Netherlands Antilles (2001-2005), March 2001. This policy paper describes the Antillean policy for waste- and waste water management, sustainable tourism, nature conservation, oil, sustainable energy, enlargement of public support for environmental policy and legislation. This plan has been submitted by the central government to all island governments for comments and approval. The plan contains project proposals for all entities (including Curaçao) and has been submitted to the Dutch government for funding. It should therefore be regarded as the main policy document for the island government in the absence of a policy plan on island level.

Besides specific policy plans, several pieces of legislation reflect government's policy. These are:

Federal Ordinance for the management of nature and the protection of plants and animal species to be found in it. The (Landsverordening houdende regels inzake het beheer van de natuur en de bescherming van de daarin voorkomende plant- en diersoorten", Grondslagen Natuurbeheer en -bescherming²⁵).

This federal ordinance requires, on the basis of six different international conventions concerning the protection of nature²⁶, that a minimum grade of protection is given to the natural environment of an island by way of an island ordinance.

²⁵ P.B. 1998, no. 48

²⁶ Biodiversiteitverdrag (CDB) (maintaining biodiversity)
CITES-verdrag (bescherming zeldzame planten en diersoorten)
Ramsar (Wetlandsverdrag) (protection of plants and animals in sites with much water)
Cartagena-verdrag (Spaw) (Caribbean treaty for Special Area and Wildlife) & LBS (Land, Bay, Sources of pollution) (To avoid pollution from land to sea) & MARPOL (Marine Pollution Protocol)
Bonn Convention (for migratory species)
Inter-American Sea-turtle convention

Federal Ordinance Foundations for Management of the Environment

A Federal ordinance ("Grondslagen Milieubeheer") is to be completed at short notice. The draft ordinance has been presented to the "Raad van Advies" for commentary. Nature and environment management will then operate within one legal framework.

Public Nuisance Ordinance

The island ordinance on Public Nuisance was enacted in 1994, with the arrival of Petroleos de Venezuela S.A. (PdVSA) which leases the refinery complex from the government-owned company Refineria di Korsou N.V.

Island Ordinance Marine Nature Management

The Island Ordinance Marine Nature Management is being drafted.

Regulatory Environmental Framework Isla Refinery

The agreement between on the one hand, the island and central governments and PdVSA on the other, contains a jointly drafted regulatory environmental framework concerning the operation of the refinery. This framework states that environmental regulations implemented by the island government must be compatible with the refinery configuration and that the investments required to meet them are economically realistic. Both governments will keep PdVSA informed of new developments relating to environmental legislation matters, including new regulations and norms, so that the refinery's position is taken into consideration before any new law or regulation is enacted. Furthermore, PdVSA agrees to collaborate in the drafting of regulations and norms necessary to comply with established environmental standards.

Environmental Impact Assessment (EIA)

An important legal instrument to regulate and control business operations that may affect the environment, is the hindrance ordinance. However, in order to properly evaluate a request to operate a business an Environmental Impact Assessment should be required. The legal basis is not yet put in place for the EIA. In addition the island government has no capacity to evaluate the assessment. The establishment of the legal framework to conduct EIA studies also requires the island government to invest in the training of personnel to evaluate the assessments, which are then presented.

The facilities and services provided by the government

Among the most important facilities and services are waste disposal facilities and sewerage systems. Basic facilities have been developed that have eliminated almost all disposals of solid waste and sewage into the marine coastal ecosystem. One of the primary objectives, making the collection of household waste "leak-proof", has shown considerable advancement. Further refinements are under development to extend to disposal of hazardous wastes, recycling and other methods.

5.2.2.3 Stakeholders and other relevant parties

- Island government authorities that cover the environmental sector of Curacao: Milieudienst Curacao (MDC), Selikor (Garbage collection and processing company), LVV (Department of Agriculture, Cattle Breeding and Fisheries)

- Authorities that, besides other tasks, perform specific environmental tasks: DOW (Department of Infrastructure), DROV (E.O.P.) (Department of Town and Country Planning), CPA (Curacao Ports Authority N.V.)
- Central government agency for nature and environment VoMil (Ministry of Public Health and Environmental Issues)
- Several NGO's in the field of the environment: Defensa Ambiental (Environmental Protection, Ecology Group), Carmabi Foundation (nature management and scientific research), Amigu di Tera (Friends of the Earth Group), Fundashon Kòrsou limpi i bunita, Reef Care, Stichting Uniek Curacao, Stinapa (Foundation of National Parks Netherlands Antilles), National Foundation for Sustainable Developments (SDO)
- The largest polluting companies Refineria ISLA S.A. (Oil refinery) and Aqualectra (Electricity and water company)
- Association of directors of waste management companies in the Netherlands Antilles and Aruba (AMUST)
- Foundation for the purchase of nature areas (STAAN)
- Netherlands Antilles Coral Reef Initiative (NACRI)
- Fundashon Antiyano pa Energia (FAPE)

5.2.2.4 Other relevant activities

IRUP

With the execution of the IRUP (Isla Refinery Upgrading Project) project in which Refineria di Kòrsou N.V. , agreed to invest approximately US\$ 130 million in the refinery installations in order to lessen the environmental impact of the operation of the refinery. The environmental projects are:

- The Solid Waste Management Unit
- Two Sulfphur Recovery Units
- Acid water stripper
- New and higher flare stack for the Catalytic Cracking Unit
- A new and higher flare stack to replace an older lower flare stack
- A feasibility study into the potentials for gasification. Although the investment costs of gasification are significant, the process offers significant environmental and economic benefits. The gasification process is an effective way of reducing air pollution, while decreasing operational costs. Gasification is also a source for cheap and clean fuel for the generation of power.

Sustainable Development Concept (UNCED)

Sustainable development as the United Nations Conference on Environment and Development (UNCED) elaborated in a concept held in Rio de Janeiro in 1992. Establishment National Foundation for Sustainable Development (Stichting Duurzame Ontwikkeling, SDO) in 2000

Harbor reception installations for waste

Up to now Nassau was the only harbor where cruise ships could unload waste generated during a voyage. As the Marpol Convention becomes applicable to the Netherlands Antilles, Curaçao will have to provide reception facilities for waste of visiting cruise ships.

Windmill parks

At present Curaçao has the largest windmill park for the generation of electricity in the Caribbean.

FOL (US Air Force)

An increase of air traffic (noise nuisance at Hato airport and surrounding areas).

5.2.2.5 Available background information, reports and policy papers

- IDB report, Policies for Promoting Sustainable Growth and Development In the Netherlands Antilles (1997)
- Government program 1999-2002
- Vomil memo on Sustainable Development, datum
- Multi-year Environmental and Nature Policy Plan of the Netherlands Antilles (Vomil, March 2001)
- Nuisance ordinance
- Retribution ordinance
- Waste product ordinance
- Nota Duurzaam Toerisme

5.2.2.6 Indicators past years

NA

5.2.2.7 SWOT analysis

Strength

- Unique natural resources (coral reefs)
- Tropical climate

Weaknesses

- Dependency on conventional energy production
- Low environmental awareness

Opportunities

- Unlimited availability of sun and wind for alternative energy production
- Increasing pressure from tourists to make the industry more eco-minded

Threats

- Loss of tourism revenues
- Decrease in environmental hygiene

5.2.2.8 Critical Success Factors and Preconditions

A strong and effective governmental agency for environmental policy making

5.2.3 Planning sub sector

5.2.3.1 Subsector Objectives

A healthy environment that provides for sustainable economic growth

5.2.3.2 Desired future development of indicators

No indicators identified yet.

5.2.3.3 Identification and analysis of all relevant activities and projects to be implemented

- Selikor has revived the collection of glass via the placement of special bins and a publicity campaign in which action figures are introduced to promote the concept of recycling (Glass Boy and Glass Girl).
- Feasibility study trust fund for nature management (MiNA)
- Investigate funding schemes for energy saving techniques in hotels (Aqualectra Multi Utility NV)
- Recycling plan for car wrecks (AMUST)
- Waste disposal strategy plan for Curaçao (MiNA)
- Cost benefit analysis oil refinery (University of Amsterdam)
- Create database biological diversity (Carmabi)
- Maintain network for monitoring and studying coral reefs (NACRI)
- Investigate present energy consumption, potentials for sustainable energy production and potentials energy saving techniques (FAPE)
- Promote sustainable tourism via website (natuurlijkantillen.info) and certification of participating businesses in the tourism industry (ANWB)
- Pilot recycling building materials (Selikor and others)
- Eco lodges Portomari ()
- Pilot hazardous waste treatment (AMUST)

5.2.3.4 Assumptions and risks

- Environmental agency upgraded; risk medium
- Funding of energy saving products for hotels; risk medium
- Funding of nature management; risk medium

5.3 Employment

5.3.1 Summary

Curaçao has only a fragmentary employment policy. Many efforts are concentrated on reducing youth unemployment. In anticipation of a well-defined employment policy MEP has identified various crash courses to reduce unemployment. Coordination among several relevant institutions concerned with employment policy is desirable.

5.3.2 Description and analysis of the sector

5.3.2.1 Characteristics of the sector

In 2000 14.0 percent of the potential labor force was unemployed. In 2001 this was 15.8%, the discrepancy is most probably caused by different survey methods used to collect the data. The unemployment rate for men and women differs; in 2000 12 percent of the men were unemployed, while 16.2 percent of the women were unemployed. The percentage of unemployed youths was 27.2 percent in 2000 and 33.8 percent in 2001.

“Ban Bario Bèk”, (the executing offices of the Island Department of Employment and Income) of which one of the central goals is the guidance of unemployed people to work, classified the currently unemployed groups:

- Group 1: The unemployed who are directly employable (5%)
- Group 2: The unemployed who, with guidance and or schooling, are employable in the short term (20%)
- Group 3: The unemployed who need intensive guidance and schooling to be employable, i.e. the longer unemployed, people without education, unmarried young mothers etc. (40%)
- Group 4: The unemployed who are no longer employable, i.e. people with a handicap, people who are older than 50 years of age etc. (35%)

Currently several initiatives are taken to encourage the participation of structurally unemployed people in the labor market. These include, among other things, job pools and (re)- schooling programs. Most of these programs, as has already been mentioned above, are focused on improving the chances of unemployed people to find work, for instance, the various “crash courses” in the field of tourism and e-commerce. These programs combine training with education, so that participants can make a successful transition to the labor market.

One of the major problems troubling the implementation of many programs to get structurally unemployed persons back to work is the lack of financial resources. In the past such projects were usually initiated with the help of development funds. Financing via NGO's is also possible as well as via various government supported foundations. The need for a social program in which these programs can be incorporated is evident.

5.3.2.2 Government policy with respect to the sector

In anticipation of a well-defined employment policy the current policy could at best be described as fragmentary. Many efforts are concentrated on reducing youth

unemployment, mostly as a result of the priority this has been given by the governments of both Curaçao and the Netherlands due to the problems of young migrants in the Netherlands.

Despite the fact that there is no clearly defined employment policy, currently there are several initiatives that positively influence employment in general. By creating an attractive business climate for investors indirectly employment-intensive growth is stimulated. This is especially true for the tourist industry. In order for the sectors tourism and also e-commerce to function satisfactorily, enough qualified workers should be available. To provide these sectors in the short term with the much-needed personnel, via crash courses people are provided with the skills, knowledge and attitudes that make them employable.

Closely linked to tourism is the renovation of the numerous monuments in the city of Willemstad. This is also a great opportunity for otherwise unfortunate youths to get involved with preserving community property and simultaneously get the necessary skills to enter the regular labor market. All these initiatives are especially suitable for early school-leavers and emphasize attaining training with education.

The government's goal is to reduce unemployment to acceptable levels. It wants to achieve this, on the one hand, through an attractive climate for enterprises and investors and an active labor market policy, and on the other hand also through an active employment policy. The employment policy will concentrate on potential workers, the groups 2 and 3 mentioned in paragraph 2.1, as well as other least opportunity groups (e.g. youths that because of age restriction don't qualify for welfare) who without guidance would not be able to find work. The government wants to help these people find work by creating both incentives for employers to hire these workers and for workers by giving them the necessary skills and making it financially worthwhile for them to get involved in the labor process. In this connection it should be emphasized that the government's goal is to create as many as possible of these jobs through the regular labor process and the economic program it follows. In this regard the development of the tourist sector should be able to absorb a lot of unemployed people with low skills and little experience. Through, for example, crash courses these people attain the necessary skills and attitudes to make a successful transition to the labor market.

Education is an important aspect in reducing discrepancies between demand and supply of labor and to create a well schooled population. Vocational training and education must be relevant to labor market needs, especially now that there are rapid technological innovations. But also in labor-intensive sectors such as tourism the education system should keep pace with changes in market requirements. With this in mind the Tourism Human Resource Development Board is established to monitor the labor market in tourism. Eventually with such Boards covering different sectors, monitoring both supply and demand on the labor market, crash courses will be unnecessary.

"The Island Department of Employment and Income" was installed to centralize the current efforts of several government departments, i.e. the Department of Social Affairs and the Job Center, to guide unemployed people to work and to improve their social situation. The employment stimulating projects that are currently included in this MEP are directly linked with one of the key economic sectors.

Multi-Year Economic Program (MEP) Curaçao
Part II Subprograms
2004 - 2007

5.3.2.3 Stakeholders and other relevant parties

- Business Community
- The Island Department of Employment and Income (Dienst Werk en Inkomen)
- The Island Department of Economic Affairs (DEZ)
- Feffik (Fundashon pa Edukashon i Formashon di Fishi i Kapasitashon) (Professional Educational institute)
- The Island Department of Labor Affairs (Dienst Arbeidszorg)
- Labor Unions
- Directie Jeugd- en Jongeren ontwikkeling
- The Island Department of Youth Affairs (Dienst Jeugdzaken)
- Reda Sosial

5.3.2.4 Other relevant activities

At the end of the year 2000 the Commissioner of Social Affairs of the island of Curaçao embraced an employment program (Poverty reduction through work, From welfare to workfare), which was originally designed in 1999, to reduce the current number of unemployed people and alleviate their situation of poverty. The goal of this plan is to give all persons who are able to work a job and to give the unemployed the necessary skills (through training and schooling) to do this job appropriately. The report indicates that in this period of economic recession most of these jobs have to be found in sectors where the government had to cut down its expenses and where, as a result of this operation, many tasks cannot be performed now. To finance this project the Netherlands agreed to donate 10 million ANG to Curaçao in 2000. The budget has been largely used to finance the training of unemployed persons and to set up programs that increase knowledge and skills of unemployed persons. These projects are still awaiting approval of the Dutch government and cannot be implemented yet. It has been explicitly stated by the Government of the Netherlands that the financial support must not be used to directly employ persons in government. The Department of Economic Affairs of Curaçao supports this approach as it has doubts whether the project will structurally contribute to the reduction of unemployment. It feels that the regular economic process should create jobs and that the government should not function as an employer of last resort.

5.3.2.5 Available background information, reports and policy papers

- Business plan of the Island Department of Employment and Income.

5.3.2.6 Indicators past year

Table 1 Unemployment rates

	1999	2000	2001
Unemployment %	14.4	14.0	15.8
Youth unemployment (%)	*	27.2	33.8

*not available

5.3.2.7 SWOT analysis

<p><i>Strengths</i></p> <ul style="list-style-type: none"> • High priority of the Governments • High impact on lowering costs of welfare by reducing unemployment. 	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> • No defined employment policy. • Projects are costly. • Low interest for the unemployed to join the formal labor market.
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • Identified projects in tourism, e-commerce and monument renovation. 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • Competition of foreign workers.

Strengths

The benefits of a sound employment policy are numerous for the unemployed personally as well as for the government in terms of costs. Therefore, both the Government of the Netherlands Antilles and the Government of Curaçao are conscious of the importance of an employment policy.

Weaknesses

The fact that there is no well-defined employment policy remains the biggest weakness. This also leads to different initiatives that are not integrated in a well-structured program. Furthermore, most of the employment projects are more suitable for a social program rather than for an economic program. Such programs often also have great costs in terms of material and counseling. Up till now the Netherlands only grants funding for economic recovery, educational and administrative innovations, which do not cover social projects. Another issue that was encountered is the difficulty in mobilizing the unemployed to join the formal labor market because of lack of financial incentives.

Opportunities

The identified project will surely serve the subsector objective of reducing the number of unemployed persons in Curaçao.

Threats

The majority of the unemployed have low educational levels, but are not taking jobs that require low skills. However, many of these jobs are accepted by foreigners at lower wages.

5.3.2.8 Critical success factors and preconditions

The restoration of economic growth is one of the major determinants for the creation of new jobs. The reduction of the number of unemployed, and thus the need for an employment policy, is also dependent on the labor market policy of the Central and the Island Governments.

5.3.3 Planning subsector

5.3.3.1 Subsector objectives

To contribute to a significant reduction in the number of unemployed who without guidance will not be able to find work, both by creating incentives for employers and employees to create and find/accept work, as the case may be.

5.3.3.2 Desired future development of indicators

Table 2 Unemployment

	2002	2003	2004	2005
Unemployment %	-1	-1	-1	-1
Youth unemployment (%)	-2.5	-2.5	-2.5	-2.5

5.3.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

Projects MEP

- "Back on track": a project aimed at youths with low educational levels where they learn about maintenance and renovation of monuments.
Status: in preparation. MEP C-T-52
- Crash course Customer Service Representatives: aimed at creating a pool of workers for the e-commerce sector.
Status: in preparation. MEPC-EC-1
- Crash course tourism: aims at upgrading low skilled persons to fill current vacancies in tourism.
Status: currently being implemented. MEP C-T-42

Policy actions Others

- Formulation of an employment policy (project idea)
- Plans with respect to reducing youth unemployment:
 - Implementation of "Lei di Bion": exempting employers of social premium as a financial incentive to hire unemployed youths.
- The formulation of an employment policy by the Island Department of Employment and Income ("Dienst Werk en Inkomen") in close association with DEZ and other relevant government organization.

Projects Others

- Renovation and expansion of the local tannery: a project for the mentally retarded with the intention to teach them a trade.

5.3.3.4 Assumptions and risks

- Cooperation and integration of the different employment projects by the different responsible organizations.
- Sufficient funds will become or remain available.

5.4 Income Policy

5.4.1 Summary

In anticipation of a clear income policy the government indirectly influences the distribution of income through the existence of a minimum wage, a social welfare system and the progressive nature of its tax system. Policies that restore economic growth and create jobs, especially on the lower side of the income scale, are the best way to improve the income position of people with low incomes.

5.4.2 Description and analysis subsector

5.4.2.1 Characteristics of the sector

Income policy focuses on achieving a balanced income distribution and stimulating the participation on the labor market. An income policy is necessary due to the existence of a large group of people who are not able to work and who without financial support would not be able to attain a minimum standard of living.

Due to the bad financial and economic situation in the island the focus has been mainly on fiscal consolidation and restoring economic growth and less on social aspects such as the distribution of income or other ways in which income is distributed. The bad financial and economic situation has, however, increased poverty and social exclusion. The measures that have been proposed to reach fiscal consolidation will most likely worsen the income situation of the lower income groups. Currently the income distribution in Curaçao is less equitable as compared to developed Western countries such as the Netherlands. Based on figures for the year 1997 the top 20 percent of the income scale received 45% of the total income, while the poorest 20% received 5 percent; in the Netherlands these percentages are, respectively, 38 and 7 percent. However, when compared to the region, the income distribution is much more equitable. In the Dominican Republic, for instance, the lowest 20 percent of the income scale receive only 4.3 percent of the total income, while the highest 20 percent receive 53.7 percent; in Costa Rica these percentages are, respectively, 4.0 and 51.8 percent.

Three aspects that imply a form of income policy are the existence of minimum wages, a progressive tax system and a social welfare system. In Curaçao three levels of minimum wages can be distinguished. Real minimum wages decreased by 11.5% during 1990 and 1999, since the minimum wages did not rise proportionally to inflation. Minimum wages vary between ANG 420 for housekeeping personnel to ANG 1000 for personnel in the industrial sector. On the ground of a change (July 2000) in the National Ordinance concerning minimum wages, the minimum wages for all sectors will in the future be set at a uniform level and will only marginally differ as regards the various islands. This will be achieved in three stages. In the final stage a recipient of minimum wages in Curaçao will earn ANG 5.77 per hour. These new minimum wages have not been implemented yet. Social benefits vary between ANG 273 for a single person and ANG 450 for a married couple per month and child benefits are ANG 16.50 per child. Other ways in which the government tries to influence the distribution of income is through different forms of subsidies such as subsidies for water and electricity, house rent, school uniforms etc.

The tax system also has an important impact on income (policy). While the lower income groups pay less tax than higher income groups, direct tax and social premiums are perceived to be high and this is a burden on income.

5.4.2.2 Government policy with respect to the sector

The government strives for a more equal income distribution, but this objective should be reached by restoring economic growth and creating jobs for people with lower incomes. Once the economy starts to grow and reaches a healthier economic basis, it will be possible to think of redistributing income through the tax system. It is important in this regard to create an income policy which reduces poverty, but on the other hand also incorporates incentives that stimulate people to work, which makes it worthwhile for employers to hire people. The tax structure must be designed in such a way that it avoids the poverty trap, i.e. the benefits that individuals receive when they are unemployed must not reduce the incentive for them to seek employment and thus get trapped in unemployment or poverty. The income distribution itself, however, also influences economic growth, the relatively equal distribution of income in some Asian countries, for example, is considered one of the factors contributing to the economic growth performance of these countries during the nineties. A relatively effective income policy aimed at a more equal distribution of income is through the educational system. By subsidizing investment in the education of lower income groups as compared to other groups, these income groups will be induced to invest in education and, consequently, increase opportunities of a higher income for these people in the future. In addition, higher investment in education stimulates economic growth.

The current progressive tax system with high rates of taxation and equally high social premiums has not only hampered economic growth, but also contributed to many people leaving the country. The main instrument with which an income policy can be achieved remains, however, the tax system. The tax structure will be reformed, in which a shift will be made from direct taxation to indirect taxation to stimulate the creation of jobs, especially in the lower income group. Drastic changes in the tax system should be accompanied by a thorough analysis of the consequences such changes have on the income distribution.

For a more thorough discussion of the tax policy of the government see the subsector program.

5.4.2.3 Stakeholders and other involved parties

- Department of Tax Affairs of the island of Curaçao
- Department of Employment and Income of the island of Curaçao
- Department of Finance of the Central Government
- Department of Finance of the island of Curaçao

5.4.2.4 Other relevant activities

- Restructuring of the tax system.

5.4.2.5 Available background information, reports and policy papers
 None

5.4.2.6 Indicators past years
 Not applicable.

5.4.2.7 SWOT analysis

<p><i>Strengths</i></p> <ul style="list-style-type: none"> • Existence of a social welfare system. • Possibility of additional subsidies. 	<p><i>Weaknesses</i></p> <ul style="list-style-type: none"> • Low level of social benefits
<p><i>Opportunities</i></p> <ul style="list-style-type: none"> • Restructuring of the tax system 	<p><i>Threats</i></p> <ul style="list-style-type: none"> • High direct tax

Strengths
 The social welfare system provides less fortunate groups with the minimum standard of living. Additional subsidies (for water and electricity) are also available.

Opportunities
 The changes in the current tax system will have a positive effect on the distribution of income.

Weaknesses
 Though they are available, social benefits are very low.

Threats
 The high direct tax is a burden on income.

5.4.2.8 Critical success factors and preconditions

The formulation of an income policy for the island of Curaçao is dependent on how the restructuring of the current tax system will evolve. In this regard the priorities of the Central Government are a shift from direct to indirect taxation and the creation of a simpler and transparent tax policy.

5.4.3 Planning subsector

5.4.3.1 Subsector Objective(s)

In the formulation of a new income policy the tax policy should be placed in a broad context, explicitly taking account of social (equity) and economic (efficiency) objectives.

5.4.3.2 Desired future development of indicators

Depends on future policy.

5.4.3.3 Identification and analysis of all relevant activities and projects to be implemented

Policy actions MEP

- Start the discussion about the importance of a well-thought coherent Income policy (e.g. by means of a paper) by politicians as well as other stakeholders in the community.
- Monitoring of the developments regarding the revision of the tax system and its effects on especially the lower income groups.

5.4.3.4 Assumptions and risks

Further simplifications of the tax system and maintaining or lowering social premium are important pre-conditions for the income policy.