RE-365

Country Program Evaluation: Jamaica 2003-2008

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ACRONYMS

CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
CP	Country Paper
CPE	Country Program Evaluation
CS	Country Strategy
CWO	Community–based water organizations
DFID	Department for International Development (UK)
ERF	Emergency Reconstruction Facility
ESP	Specific Investment Loan
EU	European Union
FINSAC	Financial Sector Adjustment Company
FY	Fiscal Year
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GOJ	Government of Jamaica
GOM	Multiple Works Loan
IADB	Inter-American Development Bank
IMA	IDB Independent Macroeconomic Assessment
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JLP	Jamaican Labour Party
LAC	Latin American and Caribbean (LAC)
MTSPF	Medium-Term Socio-Economic Policy Framework 2004-2007
PAIS	Project Alert Information System
PBL	Policy-based Loan
PBP	Programmatic Sector Loan
PCR	Project Completion Report
PIOJ	Planning Institute of Jamaica
PPMR	Project Performance Monitoring Report
PPP	Purchasing Power Parity
PSL	Private Sector Loan
SCF	Single Currency Facility
SMP	IMF Staff Monitored Program
SUP	Supplementary Loan
USAID	United States Agency for International Development
WB	World Bank
WUA	Water Users Association

EXECUTIVE SUMMARY

OVE's first Country Program Evaluation for Jamaica (RE-310) covered the period 1990-2002 and thus this evaluation covers the subsequent period, from 2003 to 2008. The choice of the cut-off date of December 2008 was driven by the fact that a new Country Strategy was originally scheduled for 2009, and while it was postponed, a Country Strategy Update presented to the Board in November 2008 marked an important shift in the Bank's programming and approval efforts. Specifically, as a result of successive economic shocks and the decision by the new Government of Jamaica to reengage with multilaterals, the Bank proposed a new lending envelope of US$400 million for 2009-10. In the context of Jamaica's agreement with the IMF in early 2010, this amount was subsequently raised to US$600 million to be approved over the next 12 months. It is too early for an evaluation of this new programming cycle, especially because many of the loans approved have been programmatic loans and the results of the reform efforts are only expected after completion of the entire series.

In order to carry out this Country Program Evaluation it is necessary to revisit the 1998 Country Paper (GN-2025), as it remained in force for over half of the period under evaluation. The presentation of a new strategy, initially programmed for 2002, was postponed to 2003 and then suspended until the Bank could determine in consultation with the Government the most appropriate timing for the next Jamaica Country Strategy. In the absence of a new strategy, the presentation of the previous CPE was delayed until November 2005. The new Country Strategy was finally approved in August 2006 (GN-2422-1). In the interim period, between 2002 and 2005, the Bank reiterated the continued validity of the 1998 Country Paper on an annual basis. Moreover, since there was no sovereign lending to Jamaica between 2005 and 2007, most of the projects in execution over the period and reviewed in this evaluation were approved in the context of the 1998 Country Paper.

The period under evaluation, 2003-8, was marked by the consequences of Jamaica's financial crisis which had erupted in 1995. During the crisis, the Bank remained the major multilateral partner engaged in the country. However, it underestimated the impact of the crisis, which left a legacy of debt overhang that continues to dominate and constrain the country's performance. Specifically, the Bank failed to recognize until quite late that the need to meet debt payments would require strong adjustment measures, undermining the public investment program.

The 1998 Country Paper, which had been approved in the midst of Jamaica's financial crisis, lacked either a diagnostic of Jamaica's slow growth or criteria for prioritizing Bank interventions. Thus approvals spanned several sectors, all deemed consistent with the objective of promoting private sector development. During this period, the Bank's primary concern seemed to be a declining portfolio, as several projects approved in an earlier period were coming to an end. Thus, even as it identified the lack of counterpart funding as a risk, it continued adding new projects to the pipeline and approving new loans through 2002, when a new strategy was due. It would later admit that the program was over dimensioned.

By 2002 the Bank found itself with a large, diversified portfolio, increasingly affected by fiscal constraints, as debt payments came to absorb a large part of the budget. At the same time, the GOJ opted for financing from private sources to meet its financing requirements, as these were not tied to new investments or subject to policy conditionalities. In this context, the Bank repeatedly postponed the preparation of a new strategy. Rather than viewing a new strategy as an instrument to guide dialogue with country authorities, it viewed it simply as guide to lending. Since Jamaica could not borrow, the preparation of the strategy was delayed. As a result, the Bank lacked a strategy for over half the period under evaluation.

The period began with protracted negotiations over rationalization of an increasingly problematic portfolio. The eventual agreement to cancel a substantial part of the portfolio across practically all projects under execution in late 2004 required substantive changes in many of the loans, leading to delays in implementation and putting at risk the attainment of development objectives. The very size and breadth of the portfolio made it hard to make selective cuts, given the large number of line ministries and executing agencies involved. At the same time, the Bank's previous lack of strategic focus undermined its ability to prioritize cuts, while it also lacked an approved strategy to guide its actions.

Budget constraints and partial cancellations were largely responsible for unsatisfactory implementation of projects under execution. However, problems in project design and weak monitoring and oversight by the Bank contributed to the poor performance of the portfolio.

In terms of results, even though Bank projects addressed important development challenges, such as land titling and citizen security, it is difficult to validate the outcomes of these loans, given the low *ex ante* evaluability of projects, significant changes in results frameworks as a result of the rescoping and the lack of adequate project monitoring and evaluation systems. Only one program has been the subject of a rigorous ex-post evaluation.

A new strategy was approved in 2006, focused on policy-based lending not subject to fiscal constraints. The choice of instruments reflected a candid assessment of Jamaica's economic conditions. While the Bank maintained its continued focus on private sector development, through a proposed policy based loan to carry out tax reforms and enhance the business climate, two other pillars were added: "value for money" and reducing vulnerability to natural disasters. The "value for money" pillar consisted of proposed policy based loans to carry out educational reforms and to improve public sector financial management, both designed to increase efficiency in the public sector. In the case of disasters, proposed Bank support was limited to a technical cooperation.

In 2008 the Bank resumed lending to Jamaica after a three-year interval and in that year alone it approved US$205 million, far in excess of the high lending scenario contemplated under the strategy for the entire period 2006-9. The approvals included three policy-based operations proposed in the strategy, each part of a series of three programmatic loans. None of them included projections of their fiscal impact. They also did not include a calculation of potential cash flow savings that could be used for faster debt or poverty reduction, as pledged in the 2008 Strategy Update.

The 2008 approvals also included four investment loans, even though this was not contemplated under the original strategy. There is no assurance that the previous history of fiscal constraints affecting loan execution will not be repeated, but the Bank has not identified this as a risk in any of the investment loans approved and thus made no plans for mitigation. The investment pipeline proposed under the 2008 Strategy Update spans several sectors, risking a repeat of the lack of strategic focus which prevailed between 1998 and 2002.

In light of Jamaica's continuing high level of public debt and economic vulnerabilities, many of the recommendations made in the previous Country Program Evaluation remain relevant, and can be adapted to the current situation, as discussed below.

First, the greatest challenge for the Bank is to define in conjunction with Jamaican authorities how it can best assist the country during the years ahead. While the international crisis was not anticipated, Jamaica's high degree of vulnerability to exogenous factors is well known in light of its high public debt/GDP ratio. The Bank should consider the development of a set of possible mechanisms or instruments to assist highly indebted middle-income countries such as Jamaica.

Second, the Bank must define the strategic focus of its program with the country to guide its actions, rather than programming on a year-to-year basis as it has done in the past. The 2006 Country Strategy's focus on medium to long-term reforms through programmatic lending may be positive, but the Bank has primarily emphasized the removal of constraints, paying little attention to promoting opportunities for future development. In particular, the Bank's emphasis on eliminating tax distortions and improving the business climate may be insufficient, leading, as the Bank itself has suggested, to a potential shift from a situation of high investment-low growth to one of low investment-low growth.

Third, the next country strategy should clearly explain the choice of financial instruments proposed and articulate how expected cash flows match the financing needs of Jamaica. If preference is given to fast disbursement loans, the fiscal impact of the reforms and the savings generated by using the resources to repay more costly private loans should be quantified. If investment loans are planned, they should be structured in a way that can withstand fiscal restrictions in the future. This might involve a more extensive use of multi-phase loans or a modular design that can be easily adjusted in difficult times.

Fourth, as recommended in the previous CPE, any proposed investment project in infrastructure or the productive sectors should have an explicit rate of return calculation, as Jamaica cannot afford to borrow for investment projects with low returns. Investments in the social sectors should demonstrate the cost-effectiveness of interventions and analyze the impact of programs on future recurrent costs.

Fifth, the *ex ante* evaluability of projects should be improved and more emphasis must be placed on *ex post* evaluations. In addition, more attention must be given to project monitoring systems so that the accuracy of PPMRs can be improved.

I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

1.1 **OVE's first Country Program Evaluation (CPE) for Jamaica (RE-310) covered the period 1990-2002 and thus this evaluation covers the subsequent period, from 2003 to 2008.**[1] The choice of the cut-off date of December 2008 was driven by the fact that a new Country Strategy was originally scheduled for 2009, and while it was postponed, a Country Strategy Update presented to the Board in November 2008 marked an important shift in the Bank's programming and approval efforts. Specifically, as a result of successive economic shocks and the decision by the new Government of Jamaica to reengage with multilaterals, the Bank proposed a new lending envelope of US$400 million for 2009-10. In the context of Jamaica's agreement with the IMF in early 2010, this amount was subsequently raised to US$600 million over the next 24 months. It is too early for an evaluation of this new programming cycle, especially because many of the loans approved have been programmatic policy-based loans to support reform efforts, whose results are only expected after completion of the entire series of two or three loans.

1.2 The objective of this chapter is to provide the context in which the Bank's program was conceptualized and delivered, and includes a description of the country's economic structure and its recent macroeconomic evolution, as well as a discussion of the main development challenges. Specifically, the chapter provides the background to understand two characteristics of the changing relationship between Jamaica and the Bank over the evaluation period: (a) a dramatic reduction in borrowing during 2003-7 relative to the previous period, detailed in Chapter II; and (b) the downsizing of the Bank's active portfolio through substantial cancellations in 2004-5, discussed in Chapter III. In addition, this chapter explores different interpretations of Jamaica's development challenges, including the Bank's, in an attempt to understand its dialogue with the country authorities and the reforms proposed.

A. General economic characteristics

1.3 **Jamaica is a middle income country, characterized by an open economy, a narrow export base and high dependence on the import of goods, especially oil and foodstuffs**.[2] The economy, traditionally based on the production of sugar, bauxite, and manufactured goods for export, has been shifting toward the provision of services, which currently contributes approximately 68% of GDP. Tourism is not identified as a specific sector in the national accounts, but it is estimated to account for approximately a quarter of the service sector and represents a significant source of foreign exchange and employment. The country's base of goods' exports remains narrow, highly concentrated on bauxite and alumina, as production of traditional exports has declined.

B. Macroeconomic evolution

1.4 **Jamaica has struggled with low economic growth, large macroeconomic imbalances and large debt accumulation since the financial crisis of the mid 1990s, which left a legacy of debt overhang that continues to dominate and**

constrain the country's performance. The crisis, analyzed in the previous CPE, occurred in an environment of unregulated, newly privatized financial institutions, liberalized interest and exchange rates, and an unsustainable credit boom in consumer-oriented credit. When the Central Bank adopted contractive monetary policies to control high inflation levels, a deep financial crisis erupted in 1995.[3] After undertaking eight IMF programs between 1977 and 1996, the GOJ was reluctant to consider another adjustment program and opted instead to develop a "home-grown" approach to the crisis. The Government bailed out all depositors, assumed non-performing loans, and acquired stakes in failing institutions. A crisis resolution agency, the Financial Sector Adjustment Company (FINSAC) was created to restructure the financial institutions; its financial liabilities were gradually converted to sovereign negotiable bonds over five years at an estimated cost of over 40% of GDP. Its consequence was a large increase in the country's sovereign debt, which in the context of high interest rates and a weakening public sector primary balance created severe adverse debt dynamics for the country (see Annex, Graph 1).

1.5 **A long process of stabilization began following the crisis and in July 2000 Jamaica reached an agreement with the IMF, opening the door to policy-based fast disbursing loans from the IDB, World Bank and Caribbean Development Bank.** The IMF Staff Monitored Program (SMP) was an informal and flexible instrument for dialogue and monitoring of indicators on a quarterly basis, not supported by Fund resources. One of its main objectives was "*to convey a signal (to official creditors, donors, and financial markets) of Jamaica's commitment to a credible and consistent policy package.*"[4] The subsequent loans provided by multilaterals contributed to the strengthening of supervision and regulation of financial institutions, a process which had already been initiated with technical assistance from the IDB.

1.6 **While the Fund supported a strong, upfront fiscal adjustment, the GOJ initially opted for a gradual approach to reversing the adverse debt dynamics.** The strategy adopted since 1998 was based on moderate improvements in the primary fiscal balance, a continuation of privatizations underway, and maintenance of a relatively stable nominal exchange rate in a manner that would not jeopardize the hard-won inflation gains of recent years.[5] Despite initially good results in line with the SMP, over the fiscal year 2001/02 Jamaica was hit by a series of shocks including an outbreak of violence in Kingston in July, a reduction in tourist arrivals following the events of 9/11, and wide-scale flooding associated with Hurricane Michelle in November, which led to the deterioration of public finances and a lower than expected reduction in the public debt. Public finances deteriorated and the Government requested an extension of the SMP for FY 2002/03 (See Annex, Table 1 for Selected Economic Indicators).

1.7 **Macroeconomic imbalances intensified through early 2003, and the authorities came to recognize the need for strong fiscal adjustment.** A renewed fiscal effort coupled with 2% GDP growth, the highest since the crisis, allowed Jamaica to meet its budget target in FY 2003/04, despite higher than budgeted interest payments. In early 2004, the Government's Medium-Term

Socio-Economic Policy Framework 2004-2007 (MTSPF) proposed to reduce the public-debt ratio from over 140% of GDP in FY 2003/046 to 100% by FY 2008/09, an extremely ambitious proposal, based on avoiding incremental indebtness and "growing out of debt." In order to support this effort, at the end of 2004, Jamaica entered a pilot "intensified" SMP, characterized by more frequent consultations and reporting. However, in the aftermath of Hurricane Ivan in September 2004, fiscal targets again slipped in both FY 2004/5 and 2005/6.

1.8 **By mid-2006, even the IMF acknowledged that "*[T]he authorities have deftly charted the economy thorough a difficult patch.*"**[7] Despite natural disasters and large hikes in the price of oil imports, the public debt ratio continued to decline, inflation was reduced and economic growth rebounded, reaching 2.7% in 2006. However, the Fund continued to call attention to the still high public debt ratio at 132% of GDP, the slippage in meeting deficit targets in 2006/07, and the public debt's exposure to exchange rate, interest rate and roll-over risks, given the public debt's high proportion of variable rate instruments.[8]

1.9 **The strong adjustment measures adopted by the GOJ undertaken in order to meet debt interest payments came at a high cost, driven by the need to generate large primary surpluses.** As interest payments grew, peaking at 49.3% of expenditures and 16.3% of GDP in 2004, the Government increased its revenues, but also made dramatic cuts in public investment, from 4.6% of GDP in 1998 to 1% by 2004 (see Annex, Graph 2). Program expenditures (non-salary recurrent costs) were also cut, and in 2004, the Government reached agreement with major trade unions to limit public sector salary increases and cap employment through 2006. Thus, the Government was able to generate very large primary surpluses over the period, often in the double digits, several percentage points above the average for the Caribbean and for the Region as a whole (see Annex, Graphs 3 and 4). The adjustment would strongly affect the GOJ's relationship with the IDB, as discussed in Chapters II and III.

1.10 **Jamaica's strong commitment to honor its debts was reflected in continued access to international capital markets to finance its gross external financing needs. Although more expensive than multilateral debt, the cost differential decreased over time** (see Annex, Graph 5). Jamaica like other countries in the region opted for borrowing from the private sector, which was not subject to policy conditionalities nor associated with increased expenditures at a time of fiscal austerity.

1.11 **After mid-2007, the macroeconomic situation deteriorated, with weaker growth, higher inflation and a wider current account deficit, leaving the GOJ no choice but to seek a stand-by agreement with the IMF in 2009, the first in 14 years.** Jamaica was hit by successive exogenous shocks, including Hurricane Dean and floods, rising fuel and food prices, and global market turbulence resulting in an increase in emerging market spreads. In the context of the global financial crisis, the new Jamaican Labour Party (JLP) administration, which took power in September 2007 after 18 years in the opposition, reengaged multilateral agencies, including the IDB as access to private international markets was eroded. The new Government's pledge to increase GDP growth had to be abandoned; the Jamaican economy is estimated to have shrunk by 1% in 2008 and 3.6% in 2009.[9]

1.12 **Despite macroeconomic imbalances and low growth over a long period, Jamaica has been able to continue to reduce poverty and is expected to meet the first Millennium Development Goal.** During the 1990s, despite stagnant GDP, Jamaica reduced poverty dramatically: from 44.6% in 1991 to 27.5% in 1995. Even after the financial crisis of the mid nineties, poverty continued to decline to 19.1% in 2003, and 9.9% in 2007. Jamaica's success in reducing poverty has been attributed to a combination of factors, including a sharp reduction in inequality in the early nineties, which though partially reversed, was followed by a period of rising consumption by the poor likely due to increased remittances, a fall in relative food prices and a decrease in inflation. However, there is growing concern that it will become increasingly difficult to maintain poverty at these relatively low levels. [10]

C. Development challenges

1.13 **Jamaica's high public debt remains the major constraint to growth and development.** Throughout the period covered by this evaluation, the problem of debt management drove most economic policy decisions and the GOJ has had little room for maneuverability in policy-making. While Jamaica faces a series of obstacles to development, "*[T]*he *government recognizes that without reducing the debt and controlling the debt generating process, public investment and social needs, such as improving health, education, and addressing crime and violence, will not be met.*"[11]

1.14 **The identification of obstacles to growth requires an understanding of the Jamaica's high investment–low growth puzzle.** The history of slow growth began in the 1970s. Official statistics show that between 1970 and 2005 GDP grew by an annual average of 0.9%, while GDP per capita declined 5% in real terms over the period. [12] A comparison with the Caribbean underscores this slow growth. Since 1992, Jamaica's GDP per capita declined from 1.2 times the Caribbean average to 0.85 by 2008 (see Annex, Graph 6). At the same time, gross capital formation has been high since 1990, reaching over 30% of GDP since 2002, exceeding LAC averages. Direct foreign direct investment has also exceeded the LAC averages after 2000 (see Annex, Graphs 7 and 8).

1.15 **Part of the puzzle is explained by underestimation of GDP, but even if adjustments are made, growth remains low.** As discussed in a study carried out by the IMF, there might be measurement problems associated with an open economy where income from tourism and other services could be recorded abroad, in addition to the usual problems of measuring the production of services, which represent on the order of 70% of output.[13] GDP could also be under-estimated due to the growth in the informal economy during the 1990s.[14]

1.16 **Exogenous shocks, especially natural disasters, also partially explain Jamaica's high investment-low growth performance.** The cumulative impact of natural disasters on GDP growth is far higher for Jamaica than for the Caribbean as a whole (see Annex, Graph 9). Damages associated with Hurricane

Ivan in 2004 were estimated at 8% of GDP, and those with Hurricanes Dennis and Emily in 2005 at 1%. Natural disasters may also be associated with the underestimation of the depreciation in capital stock. Moreover, the damage implies that a substantial share of investment is used for replacement.[15]

1.17 **Among Jamaican businessmen, crime ranks consistently as the most problematic factor for doing business,[16] causing production losses and imposing high costs on society and the economy, which contribute to slow growth.** Francis et al estimated the costs of crime in the late 1990s at 3.7% of GDP, taking into account costs to the public health system, lost production due to injury and mortality, and public expenditure on security.[17] The World Bank estimated that if Jamaica brought down its homicide rate to the levels of Costa Rica, it would boost growth by 5.4% per year.[18]

1.18 **The IDB has emphasized the role of tax distortions and high transaction costs in driving a wedge between private and social rates of return, and thus explaining the high investment–low growth paradox.** This diagnostic built on a Bank-commissioned study undertaken in 2001 which illustrated some of the distortionary effects of Jamaica's complicated tax system, including generous embedded incentives, exemptions, and special depreciation allowances, favoring certain investments, especially in hotels and certain agricultural activities. The most striking and often quoted example presented was the hypothetical case of a debt-financed investment project in the sugar industry with a negative social rate of return of 17% which would yield investors a 10% positive return given tax allowances, exemptions and credits.[19] However, much of the argument remained at the hypothesis levels as comprehensive tax expenditure calculations and the internal rate of return of the incentives are still lacking.[20]

1.19 **Subsequent work commissioned by the Bank focused on the business environment, noting that Jamaica ranked 70th out of 117 countries in the Global Competitiveness Index (GCI) of 2005.[21]** The Bank attributed this finding to a number of factors hindering private sector development and thus constraining growth, including: (a) over-involvement of the state in the economy; (b) an underdeveloped financial market with an inadequate collateral framework; (c) an overwhelming" and "crushing" bureaucracy; (d) an inefficient, outmoded and costly legal framework for business; (e) a complicated and costly system for registering land; and (f) infrastructure in poor condition.[22] Despite the Bank's emphasis on these factors, Jamaica's low ranking in the CGI was largely due to other components of the index: the business costs of crime and violence, organized crime, central government balance and government debt.[23]

1.20 **While vulnerability to natural disasters, high levels of crime and tax distortions represent significant obstacles, the high public debt remains the most important constraint on growth and a key explanatory factor for Jamaica's high investment-low growth paradox.** The previously cited IMF study presents compelling cross-country evidence of a significant and negative relationship between total public debt and productivity growth. It also examines the channels through which high debt affected the allocation of resources in Jamaica. The study finds that high public debt has been associated with macroeconomic uncertainty, making investments in sectors shielded from Jamaica-specific risks more attractive. In the 1990s, manufacturing declined and growth was centered in "enclave" tourism and mining, maturing industries with limited scope for productivity growth. At the same time, public investment in complementary inputs was crowded out by interest payments, adversely affecting productivity growth in the private sector.[24]

II. THE BANK'S PROGRAM IN JAMAICA

2.1 **The objective of this chapter is to analyze the *ex ante* characteristics of the Bank's program over this period.** The chapter is divided into two parts. The first assesses the Bank's strategic framework and planned operational program, i.e. the program intent. The second looks at the *de facto* program, covering operations approved and the mix of instruments used.

2.2 **In order to carry out this exercise, it is necessary to revisit the 1998 Country Paper (GN-2025), as it remained in force until 2006.** The presentation of a new strategy was initially programmed for 2002, postponed to 2003 and then suspended until the Bank could determine "*in consultation with the GOJ the most appropriate timing for the next Jamaica Country Strategy.*"[25] In the absence of a new strategy, the presentation of the previous CPE was delayed until November 2005.[26] The new Country Strategy was finally approved in August 2006 (GN-2422-1). In the interim period, between 2002 and 2005, the Bank reiterated the continued validity of the 1998 Country Paper on an annual basis.

A. Program intent

1. The 1998 Country Paper (CP)

2.3 **The 1998 CP was prepared in the midst of the financial crisis, when the IDB remained the major multilateral engaged in the country.** As discussed in Chapter I, Jamaica was reluctant to consider another IMF program, leading the the World Bank to curtail its activities in the country. The relevance of the IDB as a development partner at this moment cannot be underestimated, although it conditioned the amount of lending over the next three years on the adoption of an acceptable macroeconomic framework.[27]

2.4 **The objectives of the CP were broad enough to be applicable to almost any country in the aftermath of a crisis.** There were two overriding objectives. The first was "*to support the establishment of a satisfactory macroeconomic framework characterized by sustainable fiscal and balance-of-payments positions, reduced interest rates and low inflation." The second was "to support a process of structural adjustment and reform aimed at promoting an improved environment for long-term private sector-led growth and development…"*[28] Given the breadth of these objectives, the Bank was able to claim they remained valid several years after a new strategy was due.

2.5 **The strategy was relevant to the country's problems, as noted in the previous CPE, but relevance was achieved at the expense of specificity and prioritization**

of potential Bank interventions. The overriding objectives were translated into five principal areas of activity for the Bank, described as the strategic focus of the program: (a) financial sector restructuring and reform in order to strengthen the regulatory framework in the aftermath of the financial crisis; (b) private sector development, focusing on key sectors and bureaucratic improvements to facilitate business activities; (c) public sector modernization, aimed at restructuring and streamlining for higher efficiency and greater financial soundness; (d) social development, promoting accessibility of social services, better management and efficiency; and (e) environmental management, aimed at longer term sustainable use of natural resources, adequate water supply and waste management. These areas could accommodate every project already in the pipeline and allowed for the inclusion of several new projects in the coming years.

2.6 **The high degree of generality reflected the absence of a diagnostic.** The adverse macroeconomic situation was identified as a priority but largely short-term problem, to be solved through austerity measures and resolution of the financial sector bail-out in the context of a continued dialogue with the IMF. This view underestimated the depth and consequences of the financial crisis for the public sector. However, at least in this area, the Bank clearly defined its potential intervention as support for financial sector reform, once appropriate macroeconomic policies were adopted.

2.7 **The promotion of private sector-led growth was identified as the fundamental medium and long-term objective of economic policy, but there was no diagnostic of barriers or constraints to private sector expansion nor an analysis of the causes of Jamaica's long history of slow growth.** The Bank continued to place emphasis on *"support for structural adjustment and reform"* to create an appropriate environment for growth, although it acknowledged that it had little clarity about what was needed: *"Economic performance has been adversely affected by bureaucratic and structural impediments to business activity, investment and exports. This economic stagnation has occurred despite a protracted experience with stabilization and adjustment programs, during which many liberalization and policy reforms have been introduced. While it is not clear that all necessary measures were fully implemented in this process, concern remains regarding the fundamental impediments to development and the appropriate measures for achieving sustained growth."*[29] The Bank proposed to carry out a cross-country, comparative study to identify policy responses and structural reforms relevant to Jamaica, but there is no evidence that this was ever undertaken.

2.8 **Typical of strategies written at this time, there was little attempt to evaluate the results of the previous strategy or specify results indicators for the current strategy.** Even though the CP exhibited a great deal of continuity with the interventions carried out in the previous period (1995-97), it argued that it was not possible to gauge the success of the previous exercise, since the full developmental impact of the program would not be realized for many years. The new indicators presented remained descriptive and were not measurable. Rather, emphasis was placed on approval and implementation of projects, not on their development objectives.[30]

2.9 **The main risk identified was the availability of counterpart funding, which could constrain approvals, but this was overridden by a strong concern over the declining value of the portfolio as older loans were being completed.**[31] Given the emphasis on new approvals, scant attention was paid to the risk identified and no mitigating measures were proposed. By 2001, when the shortage of counterpart funding started to become a critical problem for the execution of the existing portfolio, the Bank was not equipped to handle the problem.

2.10 **The CP's planned operational program for 1998-2001 included a "growth scenario" with approvals of US$315 million subject to the adoption of credible macroeconomic policies, which was triggered by Jamaica's agreement with the IMF on the SMP.** In addition to projects already identified in the strategy and under preparation, over the next two years new potential projects were discussed and several were added to the pipeline for 2000-3, as the GOJ identified new investment priorities which matched the Bank's concern about the declining value of the portfolio. While practically all projects identified were in the public sector, the Bank continued to emphasize opportunities for private sector lending thought the PRI in the fields of energy, water and sanitation, telecommunications and transport, among others, with little success.[32]

2.11 **Over 2001-2 the Bank began to carry out a series of studies to inform the preparation of the next strategy due in 2002, but this was repeatedly postponed and programming continued to take place on annual basis.** The new strategy was scheduled to coincide with the political cycle, but the fact that the People's National Party (PNP), in power since 1989, won an unprecedented fourth term in October 2002, reduced the pressure to prepare a new strategy. New projects being approved as well as those being included in the pipeline were deemed consistent with the existing CP.

2.12 **Even as the tight fiscal situation became apparent, affecting not only counterpart funding but the entire public sector investment program, the Bank continued to maintain the validity of the current strategy and the existing pipeline.** The Country Strategy Update presented to the Board in April 2003 included a pipeline for June 2003-May 2004 of US$104 million in investment lending (equivalent to 42% of the total undisbursed balance) and promised a new strategy for the second half of the year.[33] By this time however, the Bank was already engaged in negotiations with the GOJ to a cancel a substantial portion of the existing portfolio.

2.13 **Rather than viewing a strategy as an instrument of dialogue with country authorities and guidance for its interventions, the Bank abandoned the preparation of a new strategy, once lending opportunities were no longer available.** As stated in the Programming Memorandum of October 2003, the Administration concluded that it was not the appropriate time for a new strategy, given that "*[A]t the existing debt level and interest rates, debt service is absorbing two-thirds of total government revenue and grants, leaving inadequate resources for program and capital spending.*"[34] The lending cycle based on the 1998 CP came to an end in 2004, and there were no new public sector loans approved until 2008, as discussed in the next section. The focus was concentrated almost exclusively on portfolio management, as discussed in Chapter III.

2. The 2006 Country Strategy (CS)

2.14 **A new Country Strategy was finally approved in August 2006.**[35] The preparation of the new strategy differed from that of the 1998 strategy in some important respects: it built on a self-assessment of the previous strategy as well as OVE's CPE (see Annex, Tables 2 and 3) and rested on more extensive analytical work.[36]

2.15 **The 2006 CS attributed the limited results of the previous CP to the approval of an over-dimensioned program at a time of fiscal constraints.** As noted earlier, the 1998 CP did not include indicators to evaluate its results. Therefore, in 2006 the Bank defined a set of *ex post* indicators to assess the "development impact" of the previous strategy. Most of the indicators chosen referred to outputs and were not measurable. However, despite the fact that the indicators were chosen with the benefit of hindsight, the exercise concluded that *"Development objectives were either not achieved or have been achieved only partially so far in a majority of the strategy areas."*[37] In carrying out this assessment, the lack of results was largely blamed on fiscal constraints which slowed disbursements and partial cancellations.

2.16 **The CS also acknowledged several of OVE's recommendations, especially the need for a more careful analysis of the macroeconomic and budgetary context.** As a result, it emphasized the need to restrict investment lending in infrastructure and productive sectors to projects with high rates of return given Jamaica's high-level of indebtness, and identify effective operations by PRI and IIC to complement the successful work carried out by the MIF.

2.17 **The result was a relatively modest and focused strategy based on a candid assessment of Jamaica's fiscal constraints, which proposed to concentrate on fast disbursement loans, in order to maintain the IDB's relevance to the country and assist its debt reduction strategy.** Specifically, it recognized that projected budgetary allocations for IDB-financed investments for 2006-7 and 2007-8 were likely to be below the amount required to complete existing projects, and thus ruled out new public sector investment lending. The strategy called instead for the use of policy-based loans, which avoided the fiscal constraints associated with investment lending, adding that they *"could also help debt management by reducing the cost and average maturity of the external debt."*[38] It also called for the use of grant modalities (MIF and PRODEV), private sector lending and non-financial products. In other words, this strategy placed a great deal of emphasis on instruments.

2.18 **The proposed operational program consisted exclusively of policy-based loans, but neither the size of each loan nor the aggregate amount of lending was justified.** The base lending scenario consisted of policy-based loans in two areas, each one consisting of a sequence of two programmatic loans, with initial approval in 2007. Each loan was projected at US$30 million, for a total of US$120 million for 2007-9. A high lending scenario of US$150 million included another PBL for US$30 million, to be triggered by agreement on sectoral reforms and targets, a decrease in the number of projects in execution classified as unsatisfactory in implementation progress, and a decrease in public debt/GDP consistent with the GOJ's 2006-7 budget targets. No explanation was given for budgeting an identical amount for each loan, nor was the total amount under each scenario explicitly linked to Jamaica's external or total financing requirements.

2.19 **Among the various development challenges faced by Jamaica and discussed in the Government's own Medium Term Socio-Economic Policy Framework 2004-2007 (MTSEPF), the IDB retained its previous focus on private sector development while adding two new areas.** The three pillars selected for IDB support were: (a) Private sector development through maintenance of a supportive macroeconomic framework, improved incentive frameworks, better business climate and provision of complementary inputs; (b) Getting better "value for money" at both the sectoral level and at the IDB project level, and (c) Reducing vulnerability to natural disasters through prevention activities (risk identification, mitigation and preparedness) while continuing to assist with rehabilitation and construction activities as needed.

2.20 **The first pillar, private sector development, represented a great degree of continuity with the previous strategy, but it now rested on a diagnostic of Jamaica's high investment-slow growth puzzle and its business climate.** The diagnostic, as discussed in Chapter I, emphasized distortions in the tax system producing a wide divergence between private and social rates of return and specific barriers to private sector-led growth, among them high transaction costs associated with tax payments, commercial transactions and land registration. This diagnostic was the result of analytical work carried out since the previous strategy.[39] In operational terms, this pillar rested primarily on the approval of a policy-based loan for competitiveness and supporting technical cooperation by the MIF and other sources, as well as private lending through the PRI and the IIC.

2.21 **Despite the Bank's continued emphasis on tax distortions as the major explanation for Jamaica's high investment-low growth puzzle, its diagnostic did not provide a compelling policy recommendation.** Specifically, the Bank argued that once this constraint was removed, more traditional constraints to growth would apply, which would shift the country from a case of high investment low growth to a case of low investment-low growth.[40]

2.22 **The Strategy lacked a definition of its second pillar, "value for money" as well as a diagnostic and a dimensioning of the problem.** Given Jamaica's own objective to eliminate the budget deficit by 2005-6, increasing efficiency in the public sector was of great importance, but a detailed public expenditure review to guide potential reforms was neither available nor planned.[41] The operational program under this pillar encompassed two possible policy-based loans, in education and in public sector management. Educational reform was a key priority area of the MTSEPF; however, the Government's emphasis was on improving quality, student performance and access, not on efficiency gains emphasized in the CS.[42] In the case of public sector management, the IDB proposed to build on the Country Financial Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR) undertaken jointly with the World Bank in 2005.

2.23 **While vulnerability to natural disasters remains a major development challenge for Jamaica, the Bank's previous experience and programmed actions did not justify the elevation of this area to a strategic pillar.** All previous Bank interventions until then had been reactive, providing assistance *ex post*, in contrast to the World Bank and Caribbean Development Bank which were already involved in this area. The operational program under this pillar was limited to the preparation of a country risk evaluation. In fact, this was the only non-financial product unrelated to private sector and competitiveness proposed in the strategy.

2.24 **In OVE's 2008 comparative assessment of eleven country strategies prepared between 2005 and 2008, the Jamaica CS outperformed the average with respect to Review of Programming, Diagnostic, Objectives and Logical Consistency, but underperformed with respect to Indicators, Monitoring and Risks.**[43] The indicators used in the strategy were of limited relevance. For the first pillar, the main indicators for private sector development referred to the costs of doing business and road conditions, while the Bank's diagnosis and proposed interventions dealt primarily with tax and expenditure reforms. For the second pillar, the only measurable indicators referred to the Bank portfolio, while the indicator for the third pillar was simply the preparation of a plan.

3. The 2008 Update

2.25 **The new Jamaica Labour Party (JLP) administration, which returned to power in September 2007 after 18 years in opposition, expressed its strong interest in re-engaging with the multilaterals.** As the pace of approvals increased in 2008, including two of the programmatic loans originally proposed in the 2006 Strategy, the Administration belatedly presented a Country Program Update to the Board in November 2008.[44] The update reviewed the original triggers for moving to the high lending scenario, confirming that two of them, both under the control of the Bank, had been met: (a) the new administration was significantly committed to reform, enabling the Bank to reach agreements on programmed sector loans; and (b) the portfolio implementation had improved, with less than 20% of the projects classified as unsatisfactory. The third trigger, a planned reduction in the debt-GDP ratio was not met. In fact, it was precisely the deterioration in economic conditions in 2007 that led the new administration to seek to reengage with the Bank.

2.26 **While leaving the pillars of the 2006 strategy untouched, three principles were proposed to guide new approvals in light of the severity of Jamaica's debt problem.** These principles were: a) the Bank should provide countercyclical flows, primarily through policy-based loans; b) these loans should not increase Jamaica's debt; and c) cash flow savings should be used towards debt reduction, growth enhancing investment or poverty alleviation. The programming period was extended and an indicative lending program of US$400 million was proposed for 2009 and 2010, more than two and a half times the amount programmed in the 2006 Country Strategy.

2.27 **Despite the lack of sustained improvement in the fiscal situation, the Update introduced over US$100 million in investment lending.** As in the case of the

1998 CP, this amount covered several sectors: transportation, youth development, education, social protection, and citizen security. The document argued that these projects *"have been selected with great care to ensure that they reflect the highest priorities of the Government so that there is considerable confidence that the requisite fiscal space will continue to be made available to implement them."*[45] The incorporation of explicit rates of return and measurable indicators for investment lending, recommended by the previous CPE, was largely ignored.

B. Program delivery 2003-2008

2.28 **Between 1999 and 2002, a period covered by the previous Country Program Evaluation, the Bank lent Jamaica approximately US$415 million, exceeding the high case scenario initially set in the Country Paper.**[46] Given the lack of strategic focus, these loans were spread over several sectors: transportation, agriculture, health, education, citizen security, decentralization, information technology, water and irrigation, and solid waste disposal. Two policy based loans, the Financial Sector Reform for US$150 million (initially programmed for US$50 million) and the unanticipated Social Safety Net Reform for US$60 million, accounted for 51% of the total. Despite considerable effort, no private sector loans were approved.[47] During this period the IDB consolidated its position as Jamaica's major international development partner, though its share of foreign external debt remained minor relative to debt from private sources (see Annex, Graph 10).

1. Sovereign lending

2.29 **Between 2003 and 2007, lending practically came to a halt, as shown in Table II.1. Only two public sector loans were approved during the entire period, and in light of fiscal constraints, it is unlikely that either loan would have been approved, had it not been for the availability of IFF resources due to expire.** Jamaica lost eligibility to IFF resources during the 2004-5 allocation period as its income per capita surpassed the adjusted benchmark for eligibility.[48] In October 2003, the GOJ indicated that every effort would be made to utilize the remaining resources before the deadline of June 30, 2004.[49] The Kingston Metro Water Supply Rehabilitation was approved on June 23, 2004 and the National Irrigation Development Program on June 30, 2004, though they were only signed in 2005.[50] OVE estimates that the present value of savings arising from the utilization of IFF resources in the amount of US$43 million in 2004 represented US$4.8 million or 10.1%.[51]

Table II.1. Approved loans

Approval year	Operation number	Operation number (post approval)	Operation name	Type of loan	Sector Detail	Original Approved Amount US$ million
2003	JA0128	1513/OC-JA	Oceanic Digital Jamaica Ltd.	PSL	Information Technology and Telecomm	29.0
2004	JA0106	1562/OC-JA	National Irrigation Development Program	ESP	Agricultural and Rural Development	16.8
	JA0114	1559/OC-JA	Kingston Metro Water Supply Rehabilitation	ESP	Water and Sanitation	40.0
2006	JA-L1004	1838/OC-JA	First Global Bank Limited TFFP	PSL	Trade	5.0
2008	JA-L1015	1959/OC-JA	Emergency Assistance in Response to Flood Damage	ERF	Transportation	10.0
	JA-L1001	1972/OC-JA	Competitiveness Enhancement Program	PBP	Private Sector Development	30.0
	JA-L1016	2026/OC-JA	Transportation Infrastructure Rehabilitation Program	GOM	Transportation	50.0
	JA-L1017	2084/OC-JA	First Caribbean International Bank Ltd. TFPP	PSL	Trade	7.0
	JA-L1005	2039/OC-JA	Youth Development Program – Phase I	ESP	Education	11.0
	JA-L1003	2058/OC-JA	Public Financial and Performance Management Program	PBP	Modernization of State	60.0
	JA-L1002	2074/OC-JA	Education Sector Program	PBL	Education	30.0
	JA-L1021	2100/OC-JA	Supplemental to the Primary Education Support Project	SUP	Education	14.0
		Total				**308.0**

Source: IDB

2.30 **The approval of new sovereign loans was resumed in 2008, but in that year alone the Bank approved US$205 million, far in excess of the high lending scenario contemplated in the 2006 CS for the entire period.** The first phase of the three programmatic loans planned under the high lending scenario, Competitiveness, Education Reform and Public Financial Management, were approved, the latter for twice the amount originally planned. Each of them was conceptualized as set of three loans, laying out a pipeline for future years.

2.31 **These loans did not provide information to assess if they met the three principles for policy-based loans laid out in the 2008 Strategy Update, despite the fact that both the Education Reform and the Public Financial and Performance Management Loans were approved after the update.** While they were provided countercyclical financing, it is not known whether they met the second principle, that "*PBL lending should not increase Jamaica's debt but enhance the GOJ's debt profile*." This principle was not embodied as a condition in any of the loans nor did the Bank propose to monitor how fast disbursements have affected Jamaica's debt profile. The third principle that "*cash flow savings realized will go towards faster debt reduction, growth enhancing investment or poverty alleviation*" was not supported by estimates of cash flow savings or by any analysis of growth-investment-poverty reduction returns to the reforms proposed. This is in marked contrast to the World Bank's Fiscal and Debt Sustainability Development Policy Loan approved in December 2008 which includes fiscal and debt projections with and without the proposed reforms.[52]

2.32 **Though the 2006 strategy had not contemplated investment lending, four loans were approved; despite the recent history of cancellations, these new loans did not identify fiscal constraints as a potential risk.** As shown in Table II-1, these included two road transportation loans designed to address damage caused by storms and flooding during the 2007 Atlantic Hurricane season, approved in February and October 2008, a multi-phase Youth Development Program also approved in October, and a supplementary loan to construct schools originally contemplated in the 2000 Basic and Primary Education Program III approved in December.

2. Technical cooperations

2.33 **Between 2003 and 2008 Jamaica received US$7.6 million in non-reimbursable technical cooperation** (See Annex, Table 4). Over one third of the technical assistance program was approved in 2003 and 2004, 93% of it financed with FSO resources. Approximately 56% of the total was allocated to the social sectors, encompassing several activities related to the social safety net reform. A minimum amount was approved in 2005, as FSO resources were no longer available and the preparation of a new country strategy was still in its early stages. Between 2006 and 2008, approvals reached US$4.64 million, 60% of it in 2008. The sources of financing were more diversified, but the Bank's ordinary capital funds represented the main source: 44% of the total came from PRODEV and another 31% from other special ordinary capital funds, while donor trust funds contributed only 24% of the total.

2.34 **The sectoral distribution of the technical cooperation program after 2006 indicates that it primarily supported the second and third pillars of the strategy.** Modernization of the State (PRODEV) absorbed 48% of the resources, largely oriented towards the "value for money" pillar, while 24% of the resources went to environment and natural disasters. The decline in the share of funds going to the social sectors was dramatic, from 56% in 2003-4 to 14% in 2006-8.

3. Private Sector

2.35 **Lending to the private sector finally began in 2003; however, judged by the 2006 Country Strategy's emphasis on increasing private sector lending to Jamaica, the delivery was disappointing.** As shown in Table II.1, the first non-sovereign loan to Jamaica was made to Oceanic Digital Jamaica, Ltd. in 2003, to support the expansion of the telecommunications network. Over the period, credit lines to the First Global Bank Ltd. (2006) and the First Caribbean International Bank Ltd. (2008) under the trade-finance facilitation program were also approved.[53] In 2003, the IIC approved two loans: US$10 million to RBBT Bank Jamaica LTD to finance small and medium-sized enterprises and US$10 million to the Sunset Beach Resort & Spa Hotel Ltd. to expand and upgrade its facilities in Montego Bay.

2.36 **Although the 2006 Country Strategy singled out the MIF as an important source of grant financing at a time when investment lending was not feasible, the total amount of US$2.5 million approved between 2003 and 2008 remained below the amount of US$2.9 million made available in 1998-2002.** Still, the MIF continued to play an important role in private sector development, particularly in the expansion of microcredit and support for medium of small enterprises. It also provided technical assistance to the Jamaica Trading Commission and the Office of Utilities Regulation to strengthen competition in the telecommunications sector (see Annex, Table 5).

C. Other development partners

2.37 **Jamaica has a number of other important international development partners, both multilateral and bilateral, including the World Bank, the Caribbean Development Bank, the European Union, DFID, CIDA, USAID, JICA and UNDP.** All external assistance is incorporated into the Government's MTSEPF and managed by the Planning Institute of Jamaica (PIOJ), which provides close oversight. Despite this, there is still substantial overlap among the partners in several sectors, for example in community security, where practically all partners have financed different programs.[54] Harmonization with other lenders became an important concern to the IDB in the context of fiscal constraints. As noted by the Bank in 2004, "*[A]ny new lending by development banks would compete for the already insufficient fiscal space for project execution. In the absence of dialogue and harmonization of approach, there could be "free rider" problems and undue burden placed on those agencies that rationalize their portfolios.*"[55] Since then progress has been made, including joint strategy consultations among the WB, IDB and DFID as well as a joint WB/IDB Country Fiduciary Assessment.

2.38 **In contrast to the IDB, since 2000 the World Bank has adopted a more targeted approach to Jamaica, concentrating primarily on the social sectors and inclusive growth, through "deliberately small" investment loans in light of Jamaica's fiscal constraints.**[56] The World Bank faced similar fiscal constraints as the IDB, and approved no new loans between 2003 and 2005, but resumed lending in the social sectors in 2006. However, in light of the adverse conditions faced by Jamaica in 2008, the World Bank approved a Fiscal and Debt Sustainability Development Policy Loan for US$100 million in December 2008. The Caribbean Development Bank also approved a policy-based loan for US$100 million, using the same reform matrix.

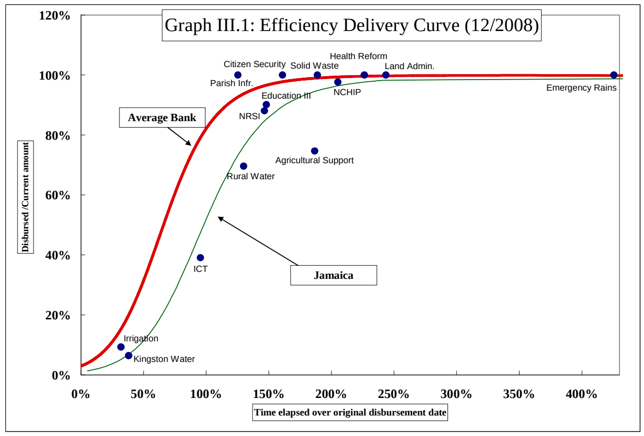
III. THE BANK'S PROGRAM IN EXECUTION

3.1 **The objective of this chapter is to analyze the performance of the Bank's loan portfolio since December 2002.** Table III.1 describes the portfolio under evaluation: it includes sovereign investment loans approved prior to 2003 but with at least 50% in undisbursed resources as of December 2002 as well as loans approved after 2003. Policy-based loans and all loans approved in 2008 are excluded from the detailed implementation analysis. The first because implementation does not follow the same monitoring and disbursement mechanisms as investment loans and the second because most of them are at a very early stage of implementation. However, both of these are included in the aggregate analysis of cash flows to the country.

Table III.1: Portfolio under Evaluation

Approval Year	Operation Number	Operation	Operation name	Original Approved Amount	Undisbursed Amount as % of original approved 12/02	Total months of extension 12/08	Status 12/08	Undisbursed amount as % of current total 12/08
1996	JA0044	972/OC-JA	Northern Coastal Highway Improvement	59.5	64%	81	Active	2%
1997	JA0051	1028/OC-JA	Health Sector Reform Program	17.7	75%	44	Closed (10/04)	
1999	JA0035	1185/OC-JA	Solid Waste Management	11.5	78%	37	Closed (11/06)	
	JA0050	1219/OC-JA	Land Admin. & Management Program	8.4	85%	46	Closed (03/07)	
	JA0107	1197/OC-JA	Parish Infrastructure Development Program	35.0	82%	23	Closed (11/06)	
2000	JA0059	1264/OC-JA	Basic and Primary Education Program III	31.5	95%	38	Active	10%
	JA0111	1283/OC-JA	Agricultural Support Services	22.0	90%	48	Active	25%
2001	JA0043	1363/OC-JA	National Road Services Improvement	24.5	100%	36	Active	12%
	JA0105	1344/OC-JA	Citizen Security and Justice	16.0	94%	39	Active	0%
	JA0113	1360/OC-JA	Rural Water Program	10.0	95%	24	Active	30%
2002	JA0116	1438/OC-JA	Information and Communication Technology	17.0	100%	12	Active	61%
	JA0123	1419/OC-JA	Emergency Reconstruction Facility Torrential Rains	16.0	71%	39	Closed (11/06)	
2004	JA0106	1562/OC-JA	National Irrigation Development Program	16.8	-	18	Active	92%
	JA0114	1559/OC-JA	Kingston Metro Water Supply Rehabilitation	40.0	-	21	Active	94%
				326	1	36		

A. Portfolio performance



3.2 **As already suggested in the two previous chapters, portfolio implementation was problematic.** Graph III.1 shows that the estimated Efficiency Delivery Curve for Jamaica lies below that of the Bank, indicating a slower rate of disbursement and thus the need for extensions for practically all loans. On average, by the original final disbursement date, Bank projects had disbursed 82% of the total while projects in Jamaica had disbursed only 54%.

3.3 **The percentage of projects with problems in performance reached 100% in December 2007, primarily due to slow disbursements.** As shown in Table III.2, the percentage of problem projects, those whose development objectives are classified in the Project Performance Monitoring Reports (PPMRs) as having a low probability of being achieved or are improbable increased from zero in December 2002 to 31% by December 2005. The percentage of projects on alert, either because of a classification of unsatisfactory or very unsatisfactory implementation progress in the PPMR or because at least two out of the eight indicators in the Project Alert Information System (PAIS) system are flagged, increased from 33% in December 2002 to 89% by December 2006.[57] In the Bank's system, the two categories, problem project and project on alert are mutually exclusive; Table III.2 shows that after December 2003 the total percentage of projects performing poorly in either category never fell below 50%.[58]

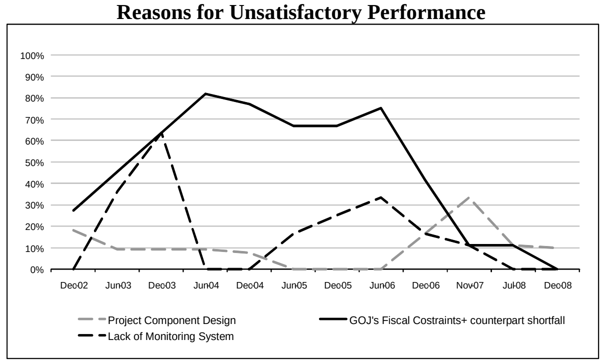
Table: III.2 Problem Projects

	Active Projects	Problem Projects	Projects on Alert	Total of projects with bad performance
		%	%	%
Dec-02	12	0%	33%	33%
Dec-03	12	8%	50%	58%
Dec-04	12	25%	33%	58%
Dec-05	13	31%	46%	77%
Dec-06	13	31%	54%	85%
Dec-07	9	11%	89%	100%
Dec-08	9	44%	33%	78%

i

3.4 **In the case of Jamaica, the overwhelming reason for unsatisfactory performance cited in PPMRs centered on counterpart funding shortfall and fiscal constraints, as well as lack of monitoring systems, as shown in Graph III.2.** These are different than the more typical reasons listed for unsatisfactory performance across the Bank' portfolio, which include project design, commitment or capacity of the executing agency, and procurement difficulties. The reason for the emphasis on fiscal constraints is not hard to identify. As the Bank concluded in the 2006 Country Strategy: "*With the benefit of hindsight, it is now clear that the operational program resulting from the [1998] strategy was over-dimensioned. The Bank significantly increased its loan approvals and portfolio at a time when the country's own public investment was shrinking. As a result of fiscal constraints many of the approved projects have faced significant implementation problems which jeopardized the achievement of their development objectives.*"[59]

Graph III.2.
Reasons for Unsatisfactory Performance



B. Rescoping of the portfolio

3.5 **The portfolio's implementation problems were not unanticipated. As noted earlier, the 1998 CP had identified the possible shortage of counterpart funding emanating from the increasing pressures of deficits on the GOJ's spending program as the main risk to Bank activities.**[60] However, no mitigating actions were proposed and new investment projects continued to be approved until mid-2004.

3.6 **As the portfolio deteriorated, the GOJ and the Bank initiated what turned out to be a protracted process of rationalization, labeled a rescoping, which affected practically the entire portfolio, dramatically reducing the relevance of the 1998 CP.** In early 2003, PIOJ began to review portfolio priorities but agreement to cancel US$49.8 million in resources and reallocate up to US$8 million to Hurricane Ivan reconstruction was only reached in October 2004. The amount agreed upon represented 19.8% of the total active loan portfolio and 30% of the undisbursed amount in October 2004 and affected 9 out of the 11 loans in execution.[61] Cancellations initially ranged from 7 to 53% of the original loan amounts, and from 10 to 72% of the amount available in June 2004. However, even these cuts failed to substantially improve disbursements due to continued Government underfunding of resources.[62] In September 2005, agreement was reached on further cuts to loans reaching their expiration date in 2006. Over 2006-7 these additional cancellations reached US$9.6 million (see Annex, Table 6).

3.7 **Once the first round of cuts were implemented, projects had to be retrofitted, leading to substantial uncertainty for executors and additional delays.** Implementation of the agreed upon cuts required substantive negotiations between the Bank, affected Ministries and Execution Agencies and a clearer identification of obstacles to execution. In the process of retrofitting, as Graph III.2 shows, problems in component design were increasingly classified in the PPMR as the major reason for unsatisfactory performance. The length of the process is illustrated by the fact that cancellations and changes to the nine programs were only formalized in May 2007, after agreements were reached on the revision of detailed activities and budgets.[63]

3.8 **As problems in each of the projects were resolved following the retrofitting exercise, the declining level and rate of disbursements on investment loans was reversed in 2006** (see Annex, Graph 11). Although this was a major achievement, the percentage of projects under alert according to the PAIS system continued to rise, reflecting cumulative historical indicators, especially low disbursements after five years of project effectiveness and extensions of final disbursement date beyond 24 months.

3.9 **The GOJ and the Bank share responsibility for the prolonged negotiations and lack of strategic focus of cancellations.** While acknowledging the difficult negotiations between PIOJ and line ministries, the Bank blamed the protracted rescoping process squarely on the Government, "*which found it difficult to take a decision on any version*" of proposed cuts.[64] Undoubtedly the Bank contributed to the problem. The inadequacy of project monitoring systems contributed to the delay in recognizing the need to rescope, new approvals took place even as rescoping negotiations were going on, and the failure to produce a new strategy contributed to the diffuse nature of the cancellations.

3.10 **The overriding lesson from the rescoping exercise drawn by the Bank was that it should better anticipate and respond creatively and in a timely and flexible manner to changes in fiscal space.** Neither "creatively" nor "flexible" were defined. However, this lesson was largely incorporated in the formulation of the 2006 strategy, which anticipating fiscal constraints emphasized fast disbursing modalities. A second lesson was that underfunding of projects leads to little likelihood that they will achieve their development objectives and therefore the Government should consider the total cancellation of problem projects to make rooms for others. Again, blame was placed on the Government, noting that "*[D]espite the Bank's best efforts, cancellations could not be deeper or concentrated in a few projects.*"[65]

3.11 **There is a risk that the Bank has been ignoring the experience of rescoping since 2008.** As noted earlier, several investment loans were approved in 2008, and none of them have identified fiscal constraints as a risk, despite a continued adverse macroeconomic and fiscal situation. The fact that these new investment loans are spread over several sectors and Ministries poses an additional risk of a repeat of the difficult negotiations which took place after 2003.

3.12 **The experience of the World Bank suggests that the very size of the IDB's portfolio, both in terms of the number of loans and the size of the undisbursed balance, made it more vulnerable to difficult negotiations involving a large number of ministries and other interests.** The World Bank had a relatively small portfolio of four loans and an undisbursed balance of US$90.3 million. By early 2005, the portfolio performance was similar to the IDB's: 25% of projects at risk and 25% classified as problem projects, primarily due fiscal constraints. At the time, the World Bank attributed the lack of cuts to "*the higher priority*" accorded by the Government to the interventions supported by its loans.[66] This view turned out to be false. In early 2007, US$31.7 million were cancelled from the World Bank's portfolio. Given the small number of projects, only two were affected, and one project (Reform of Secondary Education) bore the brunt of the cuts, making the process much smoother than the IDB's.[67]

A. Resource flows

3.13 **In aggregate terms, the Bank's presence in Jamaica decreased from 2003 to 2007; the situation was reversed in 2008, but the outstanding loan balance at the end of 2008 remained below that at the end of 2002.** Between 1998 and 2002, Jamaica's outstanding loan balance increased from US$517.6 million to US$ 695.3 million, in large part due to the approval of two policy-based loans: the Financial Sector Reform Program (1268/OC-JA) and the Social Safety Net Reform Program (1355/OC-JA).[68] By the end of 2007, the absence of new approvals and cancellations reduced the outstanding loan balance to US$580.3 million. The approval of three fast disbursing loans in 2008, led to an increase to US$659.1 million.

3.14 **The mix of lending instruments has been critical to Jamaica's financial relationship with the Bank.** Since 2003, investment loan disbursements have averaged 0.3% of GDP. The approval of the fast disbursement loans mentioned above was critical to increasing resource flows to Jamaica, and it was responsible for positive net cash flows to the country in 2000, 2002 and 2008. Considering the entire period, 2003-8, the net cash flow was negative, on the order of US$237 million, but anti-cyclical, especially in 2008 (See Annex, Graphs 12 and 13).

IV. RESULTS

4.1 **The objective of this chapter is to present the results of the Bank's program over the period 2003-2008.** Most of the projects covered in this chapter were approved in the context of the 1998 Country Paper, and thus we use its principal areas of activity to organize the analysis: private sector development, public sector modernization, social sector development and environmental management. The projects approved in 2008 are at early stages of implementation and cannot yet be evaluated. The information used in the analysis derives primarily from Bank documents, including loan proposals, PPMRs and PCRs, including those prepared in 2009 after several loans were closed, complemented by interviews with GOJ officials and Bank staff.

A. Constraints on identifying results

4.2 **The overall *ex ante* evaluability of projects was relatively low.** As a preliminary step in the analysis, OVE carried out an *ex ante* evaluability review of the projects in execution over the period, based on the Loan Document and when necessary, the first PPMR (See Annex, Table 7). Although most projects included at least one stated outcome indicator, only one third of all the indicators used were complete, in the sense of including both baselines and targets. At the project level, only 25% had a complete set of indicators. There appears to have been an improvement in recent years. Among the projects approved between 1996 and 2004, only 14% had a complete set of indicators, while among projects approved in 2008, the figure increased to 50%. This apparent improvement must be interpreted with caution: the projects approved in 2008 include three programmatic loans, whose targets refer not to the approved loans, but to the complete program, including loans to be approved in the future (in each case, an additional two loans).

4.3 **During project execution and especially in the aftermath of the retrofitting exercise, many changes were made to results frameworks, making it difficult to track and verify the attainment of development objectives.** Among the projects that were approved before 2008, all but one results framework was changed; 20% of the projects redefined at least one indicator, 33% changed the target for at least one indicator, 73% added at least one new indicator and 53% subtracted at least one indicator.

4.4 **The inadequacy of indicators and the lack of monitoring systems also constrain the ability to measure and validate project outcomes.** While most projects stated outcome indicators, several were either not well specified, not measurable, and in many cases corresponded to project outputs. Even outputs proved hard to track, as many projects lacked monitoring systems, a problem often identified in PPMRs but rarely corrected. Only one program, the Social Safety Net Reform (JA-0115), was the subject of a rigorous *ex post* evaluation, although the results are not attributable to the Bank loan, but to the entire Government program.

B. Project results

1. Private sector development

4.5 **Promoting private sector development was one of the central objectives of both the 1998 Country Paper and the 2006 Strategy, but no overall indicators or targets were set at the strategy level.** Thus results must be assessed at the project level, which include projects in Road Transportation, Agriculture and Irrigation, Information and Communication Technology and direct lending to the private sector.

4.6 **Road transportation.** Jamaica has a dense and extensive road network, comprised of over 15,000 km, which reaches practically every community in the island and represents the principal mode of transportation. The greatest challenge in the sector is road deterioration (see Annex, Table 8), caused in large part by inadequate routine and periodic maintenance, a historical and continued problem.

4.7 This sector represented the largest recipient of investment loans in the portfolio under evaluation, approximately US$160 million. These loans have financed three basic lines of activity: (a) rehabilitation of existing roads to prevent further deterioration, as in the case of the **Northern Coast Highway Improvement Program (JA-0044)** approved in 1996; (b) capacity building to ensure an adequately funded and self-sustainable maintenance system combined with routine maintenance, as in the case of the **National Road Services Improvement Program (JA-0043)** approved in 2001 and the Roads Improvement Program in the pipeline; and (c) emergency rehabilitation works triggered by natural disasters, including the **Emergency Reconstruction Facility for Torrential Rains (JA-0123)** approved in 2002, the **Emergency Assistance in Response to Flood Damage (JA-L1015)** and the **Transportation Infrastructure Rehabilitation Program (JA-L1016)** both approved in 2008.

4.8 The loans approved prior to 2008 cannot be evaluated in a rigorous manner due to a combination of factors: absence of measurable outcome indicators, lack of baselines, weak monitoring systems, and substantial changes and cancellation of funds during execution.[69] Moreover, none of the loans have generated data on costs and benefits to allow for the calculation of *ex post* rates of return. In the case of the recently completed Northern Coast Highway Improvement Program, for example, the *ex post* rate of return might be substantially lower than the *ex ante* rate, given the 90-month cumulative extension and cost overruns. The final cost of the project is unknown, but estimated to exceed US$100 million for the rehabilitation of 70 km.[70]

4.9 The execution of all three projects listed above was fraught with problems. Despite the problems incurred and the changes made in the projects in the context of rescoping, the PCR (for JA-0123) and last available PPMRs (for JA-0044 and JA-0043) all classify the achievement of development objectives as probable, the implementation progress as satisfactory, and the sustainability as also probable.[71] The information available indicates that the Bank contributed to the rehabilitation of roads and the restoration of roads and bridges damaged by hurricane, flood and rains, though we cannot evaluate the rate of return on these investments. In terms of institutional changes, the Bank contributed to the establishment of a dedicated Road Maintenance Fund in 2002, but the results of institutional strengthening activities in the sector cannot be verified. Overall, from 1999 to 2005, Bank support was not sufficient to stem the deterioration in road conditions (see Annex, Table 8), and the lack of adequate routine maintenance remains the major challenge in the sector. In fact, the new loan scheduled for approval in late 2009 for US$15 million (JA-L1027), will devote approximately half of its resources to financing routine maintenance.

4.10 **Agriculture.** The 1998 Country Paper proposed that Bank should initially concentrate on diagnostic studies to determine ways of improving production, management and marketing technologies in agriculture to enhance productivity, while also supporting the resolution of land administration, water supply, and regulatory issues.[72] While there is no evidence that diagnostic studies were indeed carried out, three loans were executed over the period of evaluation: The **Land Administration and Management Program or LAMP (JA-0050)** approved in 1999, the **Agricultural Support Services Program (JA-0111)** approved in 2002, and the **National Irrigation Program (JA-0116)** approved in 2004.

4.11 Land administration was identified as a priority area for public sector modernization, since it represented a major obstacle to a wide range of activities beyond agriculture, including irrigation, housing, road construction and watershed management.[73] The magnitude of the problem was and remains enormous: of the 650,000 rural and urban parcels in Jamaica, 45% lack registered certificates of title, and among the 55% with titles, an unknown portion are subject to claims not recorded in the certificates. The costs of transferring or registering land can be as high as 13% of the value, acting as an important disincentive to register transactions.[74]

4.12 Drawing on lessons from two previous Bank projects, which had approached the land titling problem using a "case-by-case approach" resulting in huge delays and high unit costs, LAMP sought to regularize multiple parcels simultaneously.[75] The project did not include measurable indicators, baselines or targets for outcomes. Moreover, despite the fact that the core of the project was a pilot for land registration in the parish of St. Catherine, it did not include either a midterm evaluation or an *ex post* evaluation. The main output was itself unclear; the project sought to have 30,000 parcels in selected areas of St. Catherine "clarified", but this term was not defined, and remained subject to interpretation during execution.[76] In fact, less than 600 parcels were clarified, primarily due to the projects' failure to provide support to the newly-created National Land Agency, which had sole responsibility for issuing titles. The land titling problem is currently being addressed under the Competitiveness Enhancement Program (JA-L1001). [77]

4.13 Five years after LAMP, the National Irrigation Program was approved, which sought to gradually transfer the operation and management of irrigation to Water Users Associations (WUA) of farmers, promoting cost recovery. Though approved in 2004, project implementation has lagged and an extension of 18 months to November 2011 has been granted. Though several factors account for this lack of progress, the failure to take into account the LAMP experience was critical. Specifically, during loan preparation a survey of farmers within the program area indicated that only 17% had registered titles, while 53% reported having other documents that allowed them to claim possession and ownership. However, the project set as a condition prior to the licensing of an irrigation system to a WUA "*evidence that the land tenure of at least 80% of the parcels in that system has been regularized (with registered titles or a lease deriving from a registered title, valid for at least three years after joining the WUA).*"[78] The results of the survey clearly suggested that this condition could not be met.

4.14 The Agricultural Support Services Program was designed to enhance the competitiveness of Jamaican agriculture in domestic and global markets, by strengthening the delivery of agricultural support services to producers and financing selected activities in high payoff productive projects. No outcome indicators were defined; instead the logical framework consisted of a list of 54 outputs, presented in great detail. This project provides the most dramatic example of substantial changes in outputs and outcomes over the period of execution, but baselines for the changing set of indicators were never established.[79] While there is some anecdotal evidence that the project has had successes in creating a public-private system of delivery of agricultural services and in financing profitable projects in selected areas, the absence of baseline data constrains the validation of program results.[80]

4.15 **Information and Communication Technology.** In 1998, the GOJ privatized the provision of basic telephone services, and granted the privatized telephone company, Cable and Wireless Jamaica Ltd. (C&W) a 25-year concession on local and competitive international services. In 1999 an agreement was reached to liberalize the market for telecommunication services and two new licenses were issued, to Digicel and to Oceanic Digital Jamaica Ltd. The final phase of liberalization took place in March 2003, through the opening of land-based and international voice communications.[81] The Bank has been involved in the sector through two loan operations: (a) the first IDB non-sovereign loan in Jamaica to **Oceanic Digital Ltd. (JA-0128)**, approved in 2003, and (b) a public sector loan **Information and Communications Technology (JA-0116)** approved in 2002. In addition, the MIF has provided support to strengthen competition in telecommunications for the Office of Utilities Regulation (JA-M1004) approved in 2005.

4.16 The US$30 million loan to Oceanic Digital was designed to support the second phase of its expansion. The first phase had resulted in 87,000 subscribers in and around the Kingston Area. By that time, the other new licensee, Digicel, had 1.3 million users, while C&W had 630,000.[82] Despite this, the Bank argued that "*ODJ's business plan does not rely on a disproportionate share of the market to be successful*", aiming at a market share of 8.6% in 2004, 13.7% in 2006 and 18% in 2010.[83] The loan proposal noted only in passing that in 2001 Digicel (Mossel Jamaica Ltd.) had received a US$36 million loan from the International Finance Corporation and that in early 2003 it had obtained financing of US$204 to expand its network and refinance the IFC facilities. In fact, ODJ was not able to compete. By 2005, the project's risk classification was assigned to "Watch List" and in February 2007 it was classified as "impaired." The loan was terminated in 2007 at a substantial loss to the Bank.

4.17 The Bank's intervention in the public sector, the Information and Communications Technology loan, appears to be just as unsuccessful, though its implementation progress and development objectives were consistently ranked as respectively satisfactory and probable by the Bank until December 2008, six years into execution. The purpose of the project was "*to promote enhanced efficiency and access, thereby reducing transaction costs, and increasing ICT use in the private, public sectors and civil society.*"[84] The loan is not evaluable. The main outcome of efficiency included in the document was puzzling, "*an ex post financial internal rate of return for fiscal agencies of at least 22%,*" since there was no specification of which fiscal agencies were to benefit from the project or how this rate of return would be calculated. By the time of the rescoping, two years after approval of the project, it had disbursed only 9% and the loan amount was cut in half. Despite cuts in across all components, the PPMR noted that they would not affect the attainment of the development objectives.[85] Even the advances in outputs cannot be tracked. In the June 2006 PPMR, the lack of a monitoring and evaluation system was flagged; in November 2006, among the implementation problems identified was the fact that "*the computer on which the Monitoring and*

Evaluation system was installed crashed so data has not been captured since that time." There is no evidence that this has been fixed since then.

2. Public Sector Modernization or "Value for Money"

4.18 The 1998 CP identified public sector modernization as a principal area of strategic focus, but given the implementation of a World Bank supported program, it did not identify any operations. , simply noting that "*Bank strategy will support the efforts to deepen and widen the scope of public sector modernization efforts in line with emerging priorities*."[86] No specific loans were approved, though in some of the portfolio reviews, several loans, including Land Administration, Information and Communications and the **Parish Infrastructure Program (JA-0107)** are categorized as falling under this heading.

4.19 The Parish Infrastructure project was not anticipated in the 1998 strategy nor officially programmed, but rather inherited from the World Bank, which had been working in conjunction with UNDP and CIDA in parish strengthening activities. It is not known why the World Bank abandoned the project prior to negotiations. The project was designed to improve the capacity of local authorities to deliver basic services and maintain infrastructure, in the context of a process of decentralization initiated in 1993 to restore functions and powers enjoyed by the parishes prior to 1985. The project underestimated the lack of consensus on decentralization within Government as well as the magnitude of institutional and legal changes required, which hampered execution. In the rescoping, 72% of the undisbursed balance was cut, followed by additional cancellations when the project reached its end. No development outcomes were achieved.

4.20 In the 2006 Country Strategy, Public Sector Modernization was subsumed under the heading of "Getting Better Value for Money" to be implemented through PRODEV technical cooperation and an anticipated programmatic policy-based loan for public financial management and management for results, but thus far results are limited.

4.21 In 2006, the Bank approved the first **PRODEV Technical Cooperation (ATN/OC-9776-JA)** from Sub-account A for US$450,000 to support the preparation of a medium term action plan for management for results as well as a pilot program in the Ministry of Transportation and Works. The Action Plan was prepared but no results are available about the pilot, which did not include resources for an evaluation. In 2008, the Bank approved the second **PRODEV Technical Cooperation (ATN/OC-10991-JA)** from Sub-Account B for U$1.6 million to support the implementation of the GOJ's Medium Term Action Plan to Manage for Results. The objective of the program was to: (a) improve the efficiency and effectiveness in the utilization of public resources by completing the adoption of modern financial and planning systems; and (b) enhance accountability for the production for results. The Plan of Operations noted that *"[T]he targeted efficiency savings and improved "value for money" would free up resources for improving government services,*"[87] but it did not identify where the savings would come from nor their magnitude. The TC is still under execution.

4.22 As noted in Chapter II, in November 2008, the Bank approved the first of three policy-based loans for **Public Financial and Performance Management (JA-L1003)**, which supports the implementation of the TC objectives as well as an enhanced framework for fiscal responsibility. The cash flow savings to be achieved through this loan as well as the fiscal impact of the reforms have not been calculated and thus the potential contribution of the entire PRODEV program in Jamaica to "getting better value for money" or increased public sector efficiency cannot be measured, though they are expected to be positive. In fact, improved public sector management and a fiscal responsibility framework became important elements of the GOJ's IMF program.

3. Social Sector Development

4.23 Historically, the Bank has been heavily involved in the social sectors in Jamaica. During the 1990s the Bank approved over US$160 million in social programs, and if a health project approved in 1989 is included, the amount was over US$130 million. Over the period under evaluation, the **Citizen Security and Justice Program (JA-0105)** approved in 2001, an unanticipated program, the **Social Safety Net Reform (JA-0115)** also approved in 2001 and the **Basic Primary and Education Program III** (JA-0059) approved in 2000 were executed.[88]

4.24 The Citizen Security and Justice Program was the first externally financed crime reduction program in Jamaica and thus there was little experience to draw on at the time of approval. The Program's innovative component was the delivery of violence prevention initiatives through NGOs in inner-city communities within the Kingston Metropolitan Area. This approach, with variations, was later reproduced in other donor-financed programs. The project's outcomes were ambitious, including a 30% reduction in homicide rates, a 25% reduction in major violent crimes and a 30% reduction in the number of people who express fear of leaving homes in the targeted communities. No baselines for these outcomes were available initially; they were introduced in 2005 but the source is unknown. The project did not put in place a monitoring and evaluation mechanism to measure the impact of the interventions; a proposed second phase of the program proposes to correct this with the development of a comprehensive monitoring and evaluation strategy.

4.25 The Social Safety Net Reform Program was the result of a GOJ initiative to consolidate and rationalize existing safety net programs, which were spread over several ministries and agencies, targeted to overlapping groups, plagued by cumbersome procedures in delivery mechanisms, and often ineffective due to extremely low benefits. The IDB and the World Bank collaborated with the GOJ in the design of the reform program, which led to the creation of PATH (Programme of Advancement through Health and Education), a conditional cash transfer program which resulted from the rationalization of several programs. The IDB policy-based loan[89] provided the policy framework for the overall transformation of the social safety net, while the World Bank investment loan financed specific elements within the reformed social safety net. A parallel technical cooperation technical cooperation in the amount of US$1.1 million supported additional studies as well an expanded Survey of Living Conditions with a special module on social programs to collect baseline data for monitoring and evaluation.

4.26 An external evaluation of PATH was undertaken through a comparison-group research design complemented by a qualitative analysis of program implementation.[90] The main findings included: (a) the program is well targeted, with 58% of the benefits going to the poorest quintile; (b) school attendance has increased by 0.5 days per month, an increase of 3% that is statistically significant; and (c) health care visits for children 0-6 increased by 38%. However, there is no evidence that the program was able to affect longer term outcomes such as grades, advancement to the next grade or health care status, which may be due to insufficient time elapsed or to deficiencies in the quality of services. Overall, the program's results were found to be consistent with those of other conditional cash transfer programs, both in terms of existence and magnitudes.

4.27 The Primary Education Support Program (PESP) approved in 2000 was designed to improve performance, efficiency and equity of the primary education system. The project design included a comprehensive set of activities in both quality assurance and institutional development. Civil works were also included, but the amount proved insufficient to finance planned activities, leading to the approval of a supplementary loan (JA-L1021) in 2008.[91] The project included almost 40 output indicators, carefully documented. An external final evaluation reviewed them in detail, concluding that "*a carefully planned project design together with strong management account for the success of activities that took place under the three articulated components.*"[92] The evaluation did not review project outcomes, which are harder to document, given changes in outcome indicators and problems in reconciling the different baseline studies undertaken during execution. Preliminary data presented in the PPMRs indicates that mastery in literacy skills at the Grade Four level increased, but less progress was made on school attendance. No information is available on the proposed efficiency indicator, an estimated US$5 million in savings reallocated to teacher certification and school maintenance, since it was dropped following project approval.

4. Environmental management

4.28 The 1998 CP identified two projects in this area: **Solid Waste Management (JA-0035)** approved in 1999 and Watershed Management (JA-0039), which was later dropped from the pipeline. Two additional loans in the water and sanitation sector were executed over the period under evaluation: **the Rural Water Program (JA-0113)** approved in 2001 and the **Kingston Water and Sanitation Program (JA-0114)** approved in 2004.

4.29 The Solid Waste Management Program was described as the first phase of a long term sectoral strategy to minimize environmental and health hazards associated with inadequate solid waste collection and disposal, while also undertaking some emergency works and closing non-active dump sites. This project together with Parish Infrastructure and Infrastructure and Communication Technology bore the brunt of the rescoping. The PCR concluded that the development objectives were not met, the probability of sustainability was low and the implementation progress very unsatisfactory.[93]

4.30 The Rural Water Program was designed to increase the coverage of potable water and basic sanitation services in poor rural areas, identified through Jamaica's poverty map. The program was quite small; it expected to benefit 25,000 people, which translated into a 2% to 3% increase in coverage, but the model of intervention was supposed to generate a demonstration effect. This involved the creation of legally constituted autonomous community–based water organizations (CWO) which would conceptualize, co-finance, administer, operate and maintain water services in rural Jamaica or contract with private contractors to do so. Under rescoping, the project suffered a 20% cut in resources, which reduced the number of potential beneficiaries to 12,000. More important, in the course of implementation, several of the assumptions of the model of intervention proved to be false: the CWOs were unable to provide the required 10% in construction cost, the communities could not afford the full tariffs, which exceeded those charged by the National Water Commission and it was difficult to attract private sector participation under the modality envisioned. The planned demonstration effect failed as the Jamaican Social Investment Fund, financed by the European Union, was able to construct water supply systems at a lower cost. [94]

4.31 The Kingston Water and Sanitation Program was approved in June 2004 when Jamaica's IFF resources were due to expire. The project was designed to support the reorganization and modernization of the National Water Commission and to rehabilitate the potable water supply system and sewerage and sewage treatment facilities for Kingston and urban St. Andrew. A key objective was the reduction of unaccounted for water in the project area from an estimated 61% to 45%. The loan was not signed until September 2005 and did not attain eligibility for disbursement until December 2006. In mid-2008, the GOJ requested a reallocation of US$15 million of IFF resources to PATH, to mitigate the effects of food price inflation. The Bank accepted the proposal, since final designs for the full scope of works were still to be completed, and thus not ready for execution. As a result, the Project will not achieve the efficiency gains from reduction in unaccounted-for-water, unless additional resources are forthcoming.

V. FINDINGS AND RECOMMENDATIONS

A. Findings

5.1 The period under evaluation, 2003-8, was marked by the consequences of Jamaica's financial crisis which had erupted in 1995. During the crisis, the Bank remained the major multilateral partner engaged in the country. However, it underestimated the impact of the crisis, which left a legacy of debt overhang that continues to dominate and constrain the country's performance. Specifically, the Bank failed to recognize until quite late that the need to meet debt payments would require strong adjustment measures, undermining the country's overall public investment program.

5.2 The 1998 Country Paper, which had been approved in the midst of Jamaica's financial crisis, lacked either a diagnostic of Jamaica's slow growth or criteria for prioritizing Bank interventions. Thus approvals spanned several sectors, all deemed consistent with the objective of promoting private sector development. During this period, the Bank's primary concern seemed to be a declining portfolio, as several projects approved in an earlier period were coming to an end. Thus, even as it identified the lack of counterpart funding as a risk, it continued adding new projects to the pipeline and approving new loans through 2002, when a new strategy was due. It would later admit that the program was over dimensioned.

5.3 By 2002 the Bank found itself with a large, diversified portfolio, increasingly affected by fiscal constraints, as debt payments came to absorb a large part of the budget. At the same time, the GOJ opted for financing from private sources to meet its financing requirements, as these were not tied to new investments or subject to policy conditionalities. In this context, the Bank repeatedly postponed the preparation of a new strategy. Rather than viewing a new strategy as an instrument to guide dialogue with country authorities, it viewed it simply as guide to lending. Since Jamaica could not borrow, the preparation of the strategy was delayed. As a result, the Bank lacked a strategy for over half the period under evaluation.

5.4 The period began with protracted negotiations over rationalization of an increasingly problematic portfolio. The eventual agreement to cancel a substantial part of the portfolio across practically all projects under execution in late 2004 required substantive changes in many of the loans, leading to delays and putting at risk the attainment of development objectives. The very size and breadth of the portfolio made it hard to make selective cuts, given the large number of line ministries and executing agencies involved. At the same time, the Bank's previous lack of strategic focus undermined its ability to prioritize cuts, while it also lacked an approved strategy to guide its actions.

5.5 Budget constraints and partial cancellations of projects were largely responsible for unsatisfactory implementation. However, problems in project design and weak monitoring and oversight by the Bank contributed to the poor performance of the portfolio.

5.6 In terms of results, even though Bank projects addressed important development challenges such as land titling and citizen security, it is difficult to validate the outcomes of these loans, given the low *ex ante* evaluability of projects, significant changes in results frameworks during execution and the lack of adequate project monitoring and evaluation systems. Only one program was the subject of a rigorous *ex post* evaluation.

5.7 A new strategy was finally approved in 2006, focused on policy-based lending not subject to fiscal constraints. The choice of instruments reflected a candid assessment of Jamaica's economic conditions. While the Bank maintained its continued focus on private sector development, through tax reforms and improvement of the business climate, a second pillar was added, "value for money." In both cases, a sequence of programmatic policy based loans was planned, though these were not approved until 2008. A third pillar, reducing vulnerability to natural disasters, was limited to a technical cooperation.

5.8 In 2008 the Bank resumed lending to Jamaica after a three-year interval and in that year alone it approved US$205 million, far in excess of the high lending scenario contemplated under the strategy for the entire period 2006-9. The approvals included three policy-based operations proposed in the strategy, each part of a series of three programmatic loans. None of them included projections of their fiscal impact. They also did not include a calculation of potential cash flow savings that could be used for faster debt or poverty reduction, as pledged in the 2008 Strategy Update.

5.9 The 2008 approvals also included four investment loans, even though this was not contemplated under the original strategy. There is no assurance that the previous history of fiscal constraints affecting loan execution will not be repeated, but the Bank has not identified this as a risk in the approved projects and thus made no plans for mitigation. The investment pipeline proposed under the 2008 Strategy Update also spans several sectors, risking a repeat of the lack of strategic focus which prevailed between 1998 and 2002.

B. Recommendations

5.10 In light of Jamaica's continuing high level of public debt and economic vulnerabilities, many of the recommendations made in the previous Country Program Evaluation (see Annex, Table 3) remain relevant, and can be adapted to the current situation, as discussed below.

5.11 First, the greatest challenge for the Bank is to define in conjunction with Jamaican authorities how it can best assist the country during the years ahead. While the international crisis was not anticipated, Jamaica's high degree of vulnerability to exogenous factors is well known in light of its high public debt/GDP ratio. The Bank should consider the development of a set of possible mechanisms or instruments to assist highly indebted middle-income countries such as Jamaica.

5.12 Second, the Bank must define the strategic focus of its program with the country to guide its actions, rather than programming on a year-to-year basis as it has done in the past. The 2006 Country Strategy's focus on medium to long-term reforms through programmatic lending may be positive, but the Bank has primarily emphasized the removal of constraints, paying little attention to promoting opportunities for future development. In particular, the Bank's emphasis on eliminating tax distortions and improving the business climate may be insufficient, leading, as the Bank itself has suggested, to a potential shift from a situation of high investment-low growth to one of low investment-low growth.

5.13 Third, the next country strategy should clearly explain the choice of financial instruments proposed and articulate how expected cash flows match the financing needs of Jamaica. If preference is given to fast disbursement loans, the fiscal impact of the reforms and the savings generated by using the resources to repay more costly private loans should be quantified. If investment loans are planned, they should be structured in a way that can withstand fiscal restrictions in the future. This might involve a more extensive use of multi-phase loans or a modular design that can be easily adjusted in difficult times.

5.14 Fourth, as recommended in the previous CPE, any proposed investment project in infrastructure or the productive sectors should have an explicit rate of return calculation, as Jamaica cannot afford to borrow for investment projects with low returns. Investments in the social sectors should demonstrate the cost-effectiveness of interventions and analyze the impact of programs on future recurrent costs.

5.15 Fifth, the *ex ante* evaluability of projects should be improved and more emphasis must be placed on *ex post* evaluations. In addition, more attention must be given to project monitoring systems so that the accuracy of PPMRs can be improved.

Endnotes

[1] For projects approved prior to 2008, information from 2009 Project Performance Monitoring Reports and Project Completion Reports has been incorporated when relevant.

[2] Jamaica's GNI per capita was US$7,360 (PPP) in 2008 (World Bank, *World Development Indicators*).

[3] Naranjo, M. and E. Osambela, F., *"From Financial Crisis to Correction"*, in IDB, Revitalizing the Jamaican Economy: Policies for Sustained Growth (2004).

[4] IMF, Letter of Intent and Memorandum of Economic and Financial Policies of the Government of Jamaica for 2000/01-2001/02 (July 2000).

[5] IMF, Jamaica: Staff Report for the 1999 Article IV Consultation (December 1999), p. 14.

[6] In the Staff Report for the 2003 Article IV Consultations, the IMF calculated that the public debt/GDP ratio was nearly 150%. These figures were later revised downward.

[7] IMF, Jamaica: Interim Staff Report Under Intensified Surveillance (July 2006), p. 15.

[8] IMF, Jamaica: Staff Report for the 2007 Article IV Consultation (May 2007), p. 4.

[9] IMF estimates.

[10] World Bank, "*Jamaica Poverty Assessment: Breaking the Cycle of Unemployment, Vulnerability and Crime*" (Report No. 35882-JM, March 2007) and The Road to Sustained Growth in Jamaica (2004); Planning Institute of Jamaica and Statistical Institute of Jamaica, *Survey of Living Conditions* (various issues).

[11] Cited in World Bank, "Program Document for a Proposed Fiscal and Debt Sustainability Development Policy Loan," Report No. 46806-JM (December 2008), p. 1.

[12] IDB, Jamaica Independent Macroeconomic Assessment (IMA), (June 12, 2007), p. 2.

[13] Blavy, Rodolphe, "*Public Debt and Productivity: The Difficult Quest for Growth in Jamaica*," IMF Working Paper WP/06/235 (October 2006).

[14] A comprehensive survey carried out by the Bank estimated that the informal sector grew significantly faster than the formal economy during the 1990s, from 12.9% in 1991 to approximately 40% of GDP in 2001. See IDB/RE3, "*The Informal Sector in Jamaica*" (December 2006). No comparable figures are available after 2001.

[15] Blavy, p. 10.

[16] *The Global Competitiveness Report*, 2005-6 and 2008-9.

[17] Francis, A., A. Harriott et al, "*Crime and Development: The Jamaican Experience*." University of the West Indies (2003).

[18] World Bank, "*Crime, Violence and Development: Trends, Costs, and Policy Options in the Caribbean* "(March 2007), p. vii.

[19] Artana, David and Fernando Navajas, "*Fiscal Policy Challenge,*" in IDB, Revitalizing the Jamaican Economy: Policies for Sustained Growth (2004).

[20] A study on tax expenditure is one of the triggers for the second loan under the programmatic Competitive Enhancement Program (JA-L1001).

[21] IDB, "Jamaica: Strategic Guidelines for Private Sector Development" (PS-167-1), (June 2006).

[22] Holden, Paul and Sarah Holden, "Jamaica Private Sector Assessment", Enterprise Research Institute, Washington, DC, 2005.

[23] *The Global Competitiveness Report*, 2005-6.

[24] Blavy, p. 23.

[25] Jamaica Programming Memorandum, October 2003 (CP-1528-9), p. 2.

[26] The CPE was partially updated to cover some events taking place between 2002 and 2004.

[27] A more detailed analysis of the 1998 Country Paper and the IDB's role in supporting the GOJ during the financial crisis can be found in RE-310.

[28] GN-2025. Executive Summary.

[29] GN-2025, pp. 2-3.

[30] GN-2025, Summary Matrix, p. 6.

[31] See for example CP-1528-2, p. 4.

[32] See for example CP-1528-3, CP-1528-5, CP-1528-6, CP-1528-7

[33] GN-2257-1

[34] CP-1528-9, p. 2.

[35] GN-2242-1. As in other IDB members with parliamentary regimes, it is difficult to time the strategy with changes in Government. However, in this case, the new strategy coincided with the retirement of Prime-Minister P.J. Patterson after 14 years, replaced by Portia Simpson Miller.

[36] Some of these studies were eventually collected in the IDB book Revitalizing the Jamaican Economy: Policies for Sustained Growth (2004).

[37] GN-2422-1, p. 15.

[38] GN-2242-1, p. 20.

[39] In addition to the studies collected in the 2004 book Revitalizing the Jamaican Economy: Policies for Sustained Growth, other studies included Holden, Paul and Sarah Holden, *"Jamaica Private Sector Assessment"*, Enterprise Research Institute, Washington, DC (2005); Jessen, Anneke and Christopher Vignoles, "*Jamaica: Trade and Integration Sector Note,*" IDB Integration Department, (2004) and IDB/RE3, "*Informal Sector Study for Jamaica*" (2006).

[40] IDB, Jamaica Independent Macroeconomic Assessment, January 2008, p. 5.

[41] The World Bank published "*Jamaica: Fiscal Consolidation for Growth and Poverty Reduction*" in February 2005, but this public expenditure review was focused on health and education.

[42] GOJ, MTSPF 2004-2007, Education Matrix.

[43] Background prepared for chapter II of OVE, *"The Evaluation of the New Lending Framework: 2005-2008"* (RE-342-4).

[44] GN- 2422-3. This was belated in the sense that by November 2008 over US$100 million in sovereign lending had already been approved, including two investment loans for US$61 million not contemplated in the pipeline, and a second programmatic loan for US$60 million was already in the Board's agenda.

[45] GN-2422-3, p. 5.

[46] No loans were approved in 1998.

[47] Some of the potential loans considered by PRI including the expansion of the Jamaica Public Service Company Ltd, a privatized electricity company, and the expansion of the Sangster International Airport at Montego Bay, were financed by the IFC.

[48] FN-263-35, 14 September 2004.

[49] CP-1528-10, p. 4.

[50] Of the two remaining loans in the pipeline, the Youth Development Program was approved in 2008, while the South Coast Sustainable Development Program was eventually dropped from the pipeline.

[51] The prevailing interest rate in the second semester of 2004 was 4.99% (Adjustable Interest rate-Single Currency Facility) and the effective lower limit interest rate for IFF was set 3.38%. The calculations were done assuming the loans would disburse over 8 semesters, with a 20 years amortization period, while the IDB rate remained constant. The savings were discounted at the IADB SCF rate.

[52] World Bank, Report No. 46806-JM, p. 37.

[53] The Table does not include a US$200,000 partial guarantee for the First Caribbean International Bank (FCIB) Regional Risk Sharing Facility (JA-L1018) approved in November 2008. All FCIB subsidiaries in the Caribbean Region are eligible to participate in the facility, but only the Jamaican subsidiary has entered so far, which might explain why the regional facility was classified as a Jamaica program. However, it is unlikely that the entire credit line will be absorbed by Jamaican companies.

[54] In the 2006 Country Strategy, the presence of several development partners is mentioned as one of the reasons for not including crime and violence among the strategy areas to be supported by the Bank beyond the current project in execution (JA-0105). See GN-2422-1, p. 21. Despite this, a second phase (JA-L1009) was included in the pipeline in 2008 for approval in 2009.

[55] CP-1528-11, p. 16.

[56] World Bank, Country Assistance Strategy (April 2005), p. 42.

[57] Alert status projects are those operations considered to be on track towards achieving their development objectives (DO) but are either rated unsatisfactory or very unsatisfactory in terms of implementation progress (IP), rated low in their assumptions, or flagged as having 2 or more indicators characteristic of potential problems. Based on objective information from the Bank's corporate database, the following eight indicators were specifically developed for investment projects to complement information from the PPMR system: (1) Disbursement period equal to or greater than 3 years with less than 25% disbursed, for projects that have already reached eligibility; (2) Disbursement period equal to or greater than 5 years with 25% to 75% disbursed; (3) Time elapsed to achieve first eligibility (from contract signature date or ratification date,

as required) equal to or greater than 12 months; (4) Less than 10% of opening balance disbursed over the past twelve months for projects eligible for 3 or more months; (5) Time elapsed to reach validity (approval to contract signature) equal to or greater than 11 months (in countries not requiring ratification); (6) Time elapsed to reach validity (approval to ratification) equal to or greater than 17 months (in countries requiring ratification); (7) Extensions for final disbursement date greater than 24 months; and (8) presentation of audited financial statements overdue for six months or more. (ARPRE 2005, Annex II, page 1).

[58] All reported percentages and changes should be interpreted with caution. Given the small number of projects, any one project represents a relatively high percentage of the total.

[59] GN-2242-1, p. 17.

[60] GN-2025, p. 16.

[61] The total number and amount of active projects excludes the Health Sector Reform Program (1028/OC-JA), which ended in mid-2004 and the two investment loans approved in 2004, which were not signed until 2005. The cancellations made under the rescoping exercise do not include the amount of US$10.1 million cancelled from the Heath Reform Project, which occurred between 2003 and 2004, for reasons related to the program itself, not fiscal constraints.

[62] CP-1528-14, p. 6.

[63] LEGIII/JA-926643.

[64] CP-1528-12, p. 16.

[65] CP-1528-14, p. ii.

[66] WB CAS (April 2005), pp. 22.

[67] WB CAS Progress Report (July 2007).

[68] Loan 1268/OC-JA for US$150 million disbursed in 3 tranches between November 2000 and December 2002. Loan 1355/OC-JA for US$60 million disbursed in two tranches, the first in January 2002 and the second in September 2004.

[69] In the case of the Emergency Reconstruction Facility Loan (JA-0123), the Project Completion Report (April 2006) states that the main outcome, restoring traffic to pre-torrential rain/flooding event level, was achieved, despite the lack of a baseline. As noted in the PCR text: "*Given the nature of the loan operation, i.e., an emergency response facility following a natural disaster, there was no baseline for this indicator at the beginning of the project. However, with the rehabilitation of the roads, which improved the rideability and hence the level of service to road users it is reasonable to assume that the traffic levels would be at least, if not greater than, what it was at the time of the natural disaster event.*" The same reasoning was applied to works associated with Hurricane Ivan in 2004, which were financed by resources reallocated from this loan as well as the National Road Service Improvement Program (JA-0043).

[70] The problems experienced in the rehabilitation of the Northern Coast Highway were not limited to the IDB segment. The 74Km segment linking Negril to Montego, financed by the Japanese Government, was delayed by 71 months and quadrupled in cost. See H. Onishi, "North Coast Development Project", December 2005.

[71] PPMR ratings on development objectives tend to be subjective, and there is no system in place for continued monitoring of completed projects. In the case of the Northern Coast Highway Improvement Program, at the end of 2008, the PPMR rated the project as having a very high risk and low probability of reaching its development objectives, due to lack of sustainability attributed to the lack of maintenance. By May 2009, these classifications were changed to medium risk and probable attainment of development objectives, as the new Government pledged to increase resources going to the Road Maintenance Fund and enacted legislation to impose vehicle weight limits. However, no system has been put in place to continue to monitor the maintenance of the highway. In the case of the National Road Services Improvement Program, at the end of 2008, the project was classified as having a low probability of meeting its development objectives, given the road network's environmental vulnerability to storm damage from hurricanes; by June 2009, the classification was changed to probable given Government's decision to increase resources to the Road Maintenance Fund and initiate an island-wide drainage master plan. The case of the National Road Services Improvement Program provides additional illustrations of the difficulty of relying on PPMRs to track outputs and outcomes. The loan was heavily affected by rescoping exercise: 20% of the loan was cancelled, while an additional 12% was reallocated to addressing damage from Hurricane Ivan, reducing the target for routine maintenance from 4,600 km to 1,800 km. The outcome targets for maintenance were adjusted twice, once to reflect the reduced scope of works and later to

coincide with what was actually carried out, 561 km. Moreover, under the retrofitting exercise, a key indicator of prevention of road damage, the placement of mobile weight units, was dropped. This remains a major problem in Jamaica to this day, not tackled by the Bank.

[72] GN-2025, p. 8.

[73] GN-2025, p. 10.

[74] PR-2241, p. 2.

[75] The project adopted an innovative approach, outsourcing several tasks to specialized firms to expedite the process on the supply side, and a public awareness campaign and a waiver of transfer taxes on the demand side.

[76] This is discussed in detail in the Project Completion Report.

[77] The 2008 Competitiveness Enhancement Program includes land titling as one of the four reform areas. The condition for the first loan is *"the presentation of a time-bound action plan including a strategy for low cost land registration and titling of currently informal land holdings and reduction of fees, commission and duties for land transactions."* The action plan suggests a second LAMP project will need to be undertaken, whether financed by the Bank or another agency. The outcome indicator for the program is the number of registered landholdings. There is no baseline, but a target is set for a 20% increase two years after the third loan under the program.

[78] PR-2853, p. 23.

[79] In late 2004, possibly as a result of the rescoping, six development objectives were defined, aligned with components and subcomponents, and 14 outcome indicators proposed, though no baselines were provided. Over the next two years, outcome indicators were refined, and the need to undertake special studies to define baselines established. There is no evidence that this ever took place, and in 2008, 11 new outcome indicators were introduced. Many of them corresponded to simple output indicators, for example the "number of laboratories of plant protection accredited to perform qualified tests*." Others were puzzling, such as the type and number of new domestic and overseas market opportunities for beneficiaries in domestic hotels, food chains, processing firms and supermarkets"* with a target of 3.

[80] The PPMR cannot be relied upon to verify results. Some indicators were vague but included such precise targets that they could only have been defined ex-post, for example *"levels of profitability (income US$) of a selected group of productive agricultural activities linked to the productive projects being supported with the selected priority commodities."* Neither the group of activities nor the selected priority commodities were specified, but the baseline was US$11,307 in February 2001, and the expected target, which had been achieved, was set at US$23,539.

[81] World Bank, The Road to Sustained Growth in Jamaica, p. 75 and EIU, Jamaica Country Profile 2006, p. 13.

[82] EIU, Jamaica Country Profile 2006, p. 13.

[83] PR-2808, p. 24.

[84] PR-2721, p. 12.

[85] PPMR of 28 June 2005.

[86] GN-2025, p. 3.

[87] JA-T1024 Plan of Operations, p. 3.

[88] The Health Sector Reform Program (JA-0051) was completed in 2004 but was analyzed in the previous CPE.

[89] The original IDB loan was approved in October 2001 for US$40 million, but in light of the economic impacts of September 11 and natural disasters, it was increased to US$60 million in December 2001.

[90] Mathematica Policy Research, Inc., "Evaluation of Jamaica's PATH Program: Final Report" (March 2007)

[91] In the current economic situation, there is a risk that this loan will be affected by the same fiscal constraints which led to delays in starting civil works in the original loan, but the risk has not been anticipated in the supplemental loan.

[92] CRC Sogema, "Primary Education Support Project (PESP) End-of-Project Evaluation," (January 2009), p.ii.

[93] The failure was largely attributed to fiscal constraints, which at first resulted in low budgetary allocations and then led to the rescoping. This was in fact one of the two projects that bore the brunt of the cuts in the portfolio: 41% of available resources were cut. At the end of the project execution period, the remaining loan balance of US$4.6 million was cancelled, when the executing agency failed to present a

business plan to reach minimum results. Thus, from the original loan amount of US$11.5 million, only US$3.8 million was actually disbursed. It is interesting to note that the Executing Agency was the Ministry of Local Government, Youth and Community Development, the same Ministry responsible for Parish Infrastructure which also bore the brunt of rescoping, suggesting either a weakness or unwillingness to advocate for its projects in the context of the rescoping exercise.

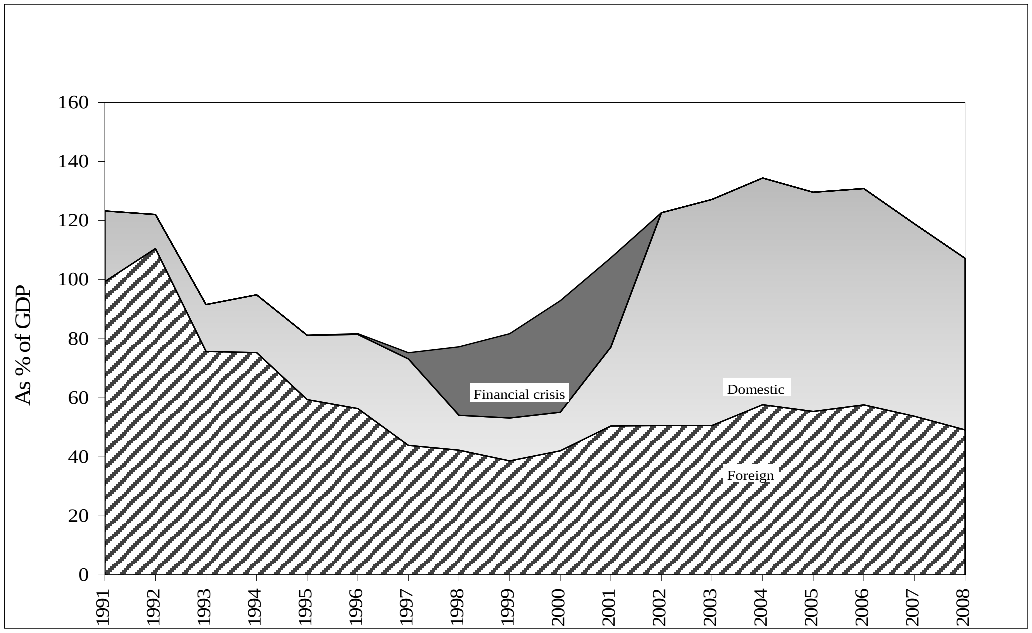
[94] These problems are discussed in detail in the PCR.

OFFICE OF EVALUATION AND OVERSIGHT

CPE Jamaica 2003-2008

Annex: Graphs and Tables

Graph 1. Impact of financial crisis on debt



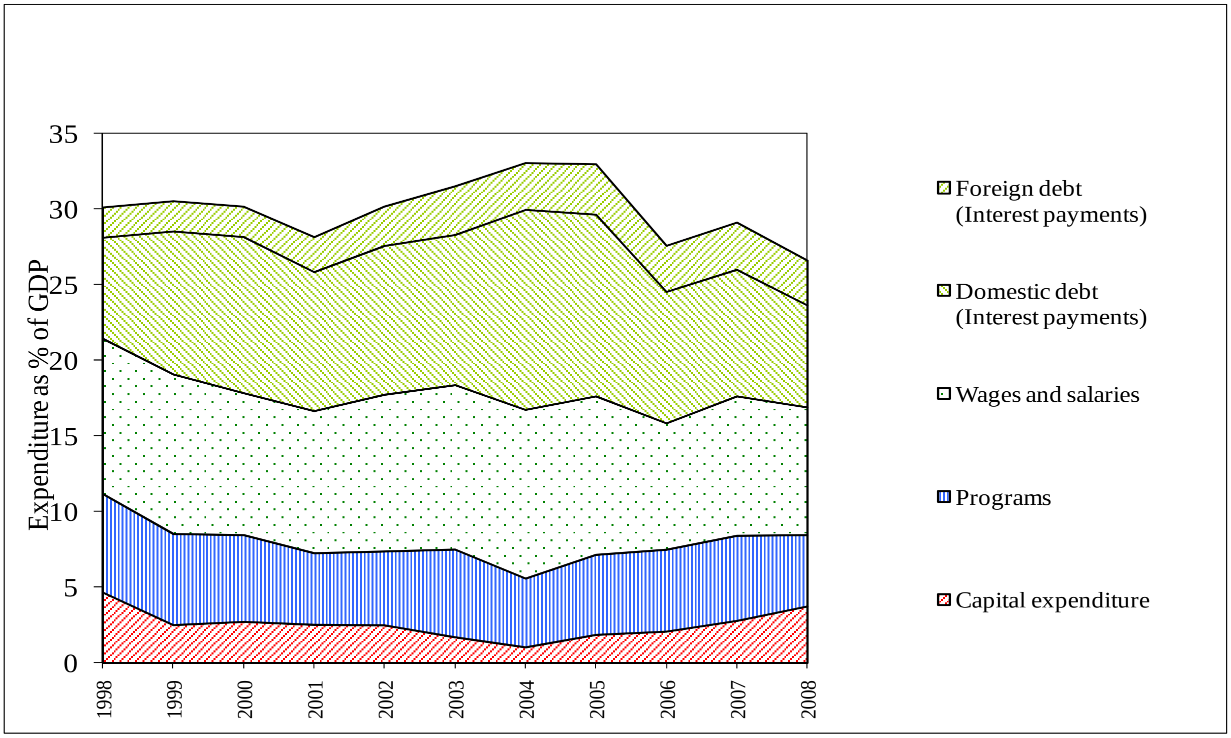
Source: IMF

Table 1. Selected Economic Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP, Prices and exchange rate						Annual percentage change					
Total Real GDP	-1.2	1.0	0.9	1.3	1.0	3.5	1.4	1.0	2.7	1.4	-1.0
Per capita real GDP	-2.1	0.7	0.3	0.8	0.6	2.9	0.9	0.6	2.2	1.0	-1.4
Consumer Price index (Average)	8.6	6.0	8.1	6.9	7.0	10.1	13.5	15.1	8.5	9.3	22.0
Exchange rate (End of period)	2.0	11.4	4.1	7.0	5.3	19.3	6.0	1.8	5.6	4.9	5.3
Real exchange rate, REER (Exchange rate)		-1.6	4.0	0.2	-3.9	14.3	-4.2	5.2	4.1	-1.8	
Employment											
Labor force (% of total population)	43.8	43.3	42.6	42.3	46.1	45.1	45.1	44.8	44.4	44.3	45.3
Unemployment rate (% of labor force)	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3	10.2	12.0
Government operations						In percent of GDP					
Budgetary revenue	23.5	24.5	26.8	27.1	25.0	24.8	27.7	28.6	24.8	24.8	23.3
Budgetary expenditure	30.5	30.9	30.5	27.9	30.2	31.5	33.0	33.0	27.6	29.1	26.6
Primary expenditure	21.8	19.4	18.2	16.4	17.8	18.4	16.7	17.6	15.9	17.6	16.9
Interest payments	8.7	11.4	12.3	11.5	12.4	13.1	16.3	15.3	11.7	11.5	9.7
Primary balance	1.6	5.1	8.6	10.6	7.2	6.4	11.0	10.9	8.9	7.2	6.4
Budget balance	-7.1	-6.3	-3.7	-0.8	-5.2	-6.7	-5.3	-4.4	-2.8	-4.3	-3.4
Public debt	77.2	81.7	92.9	107.3	122.7	127.1	134.4	129.6	130.8	118.9	107.2
External	42.2	38.6	42.0	50.4	50.6	50.6	57.6	55.3	57.6	53.7	49.1
Domestic	35.0	43.1	50.8	56.9	72.1	76.5	76.8	74.3	73.3	65.2	58.1
External sector											
Current account balance	-2.3	-4.1	-5.0	-8.3	-12.7	-8.6	-7.3	-10.6	-11.7	-16.4	-16.0
Export of goods f.o.b.	43.2	43.0	44.8	41.4	37.5	42.7	43.9	41.1	47.1	43.9	42.8
Crude Bauxite		0.7	0.6	1.1	1.2	1.1	0.9	1.0	1.1	1.0	0.9
Alumina		8.0	8.5	7.8	7.0	8.3	9.3	9.5	10.3	10.5	9.3
Imports of goods f.o.b.	50.7	50.2	53.5	55.4	55.5	59.1	58.8	61.7	69.7	69.9	68.0
Value of oil imports	3.8	4.9	7.4	7.5	7.4	10.0	10.2	14.0	15.5	16.5	15.0
Net international reserves	9.1	7.1	13.1	23.1	19.1	14.4	20.8	22.3	23.1	16.4	13.6
Workers' remittances and compensation of employees	9.7	10.1	11.1	12.9	14.7	16.9	18.3	18.4	19.4	18.8	
Net foreign Direct investment	3.8	5.3	4.5	6.6	4.8	7.4	6.1	6.2	5.9	8.7	7.2

Source: IMF

Graph 2. Composition of Expenditure as % of GDP

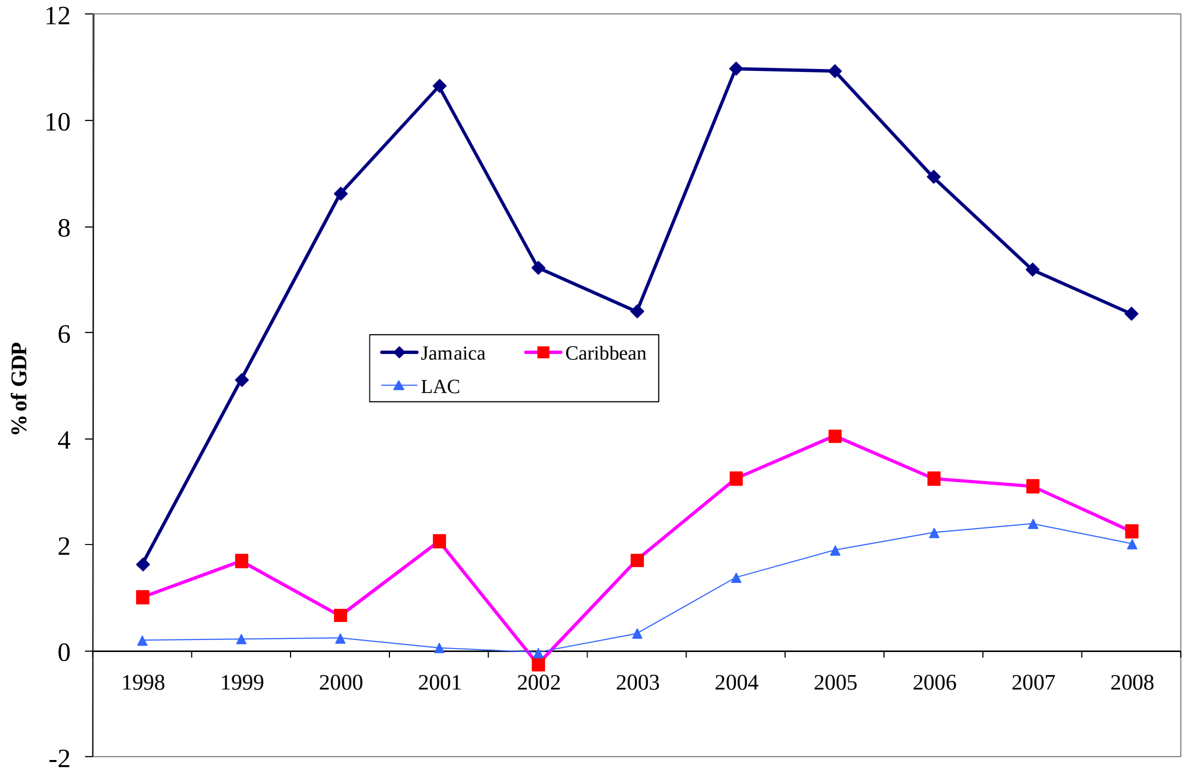


Source: Ministry of Finance (MOF) and Planning Institute of Jamaica (PIOJ), Economic and Social Survey of Jamaica (several years) http://mof.gov.jm/jabudget.shtml

Graph 3. Primary and total fiscal balance

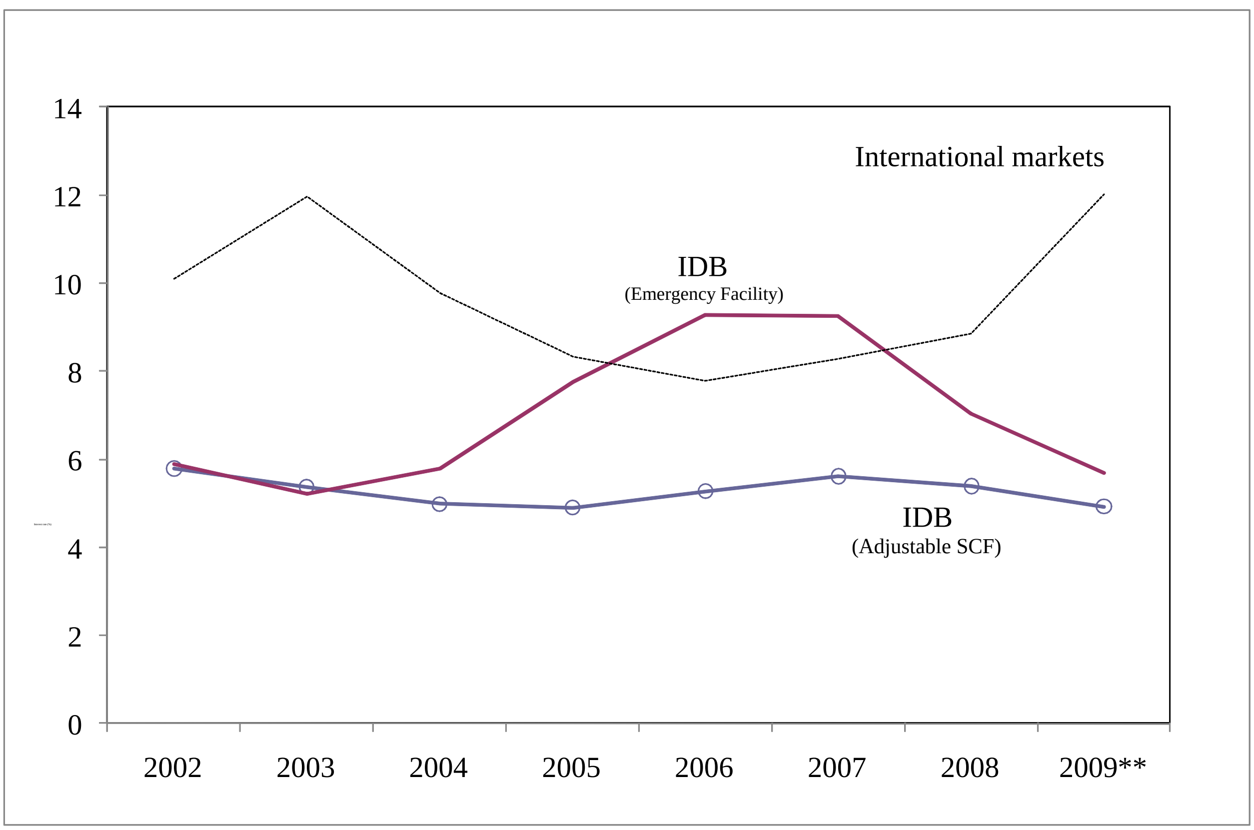
Source: IMF   a/ Preliminary data   b/ Budget information

Graph 4. Jamaica's Primary Balance compared to the rest of the Region



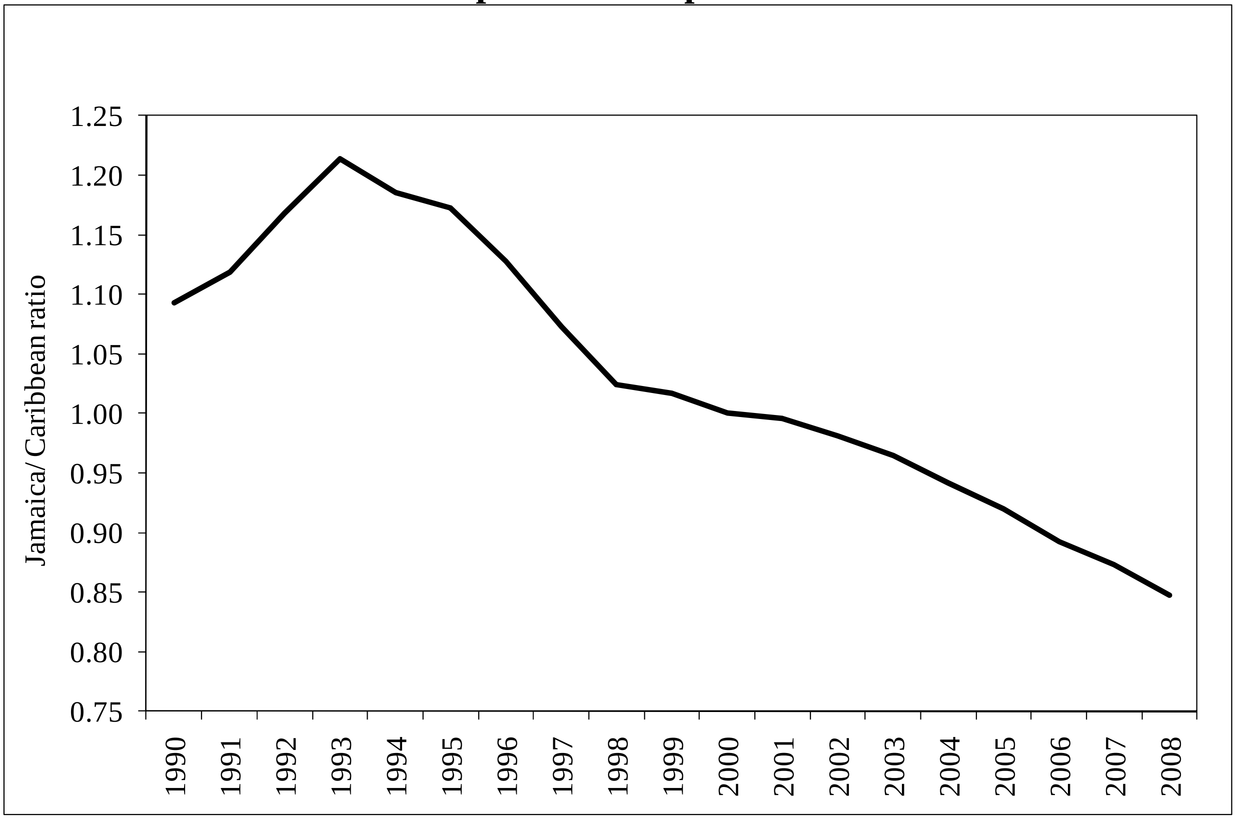
Source: IMF

Graph 5. Cost of Financing



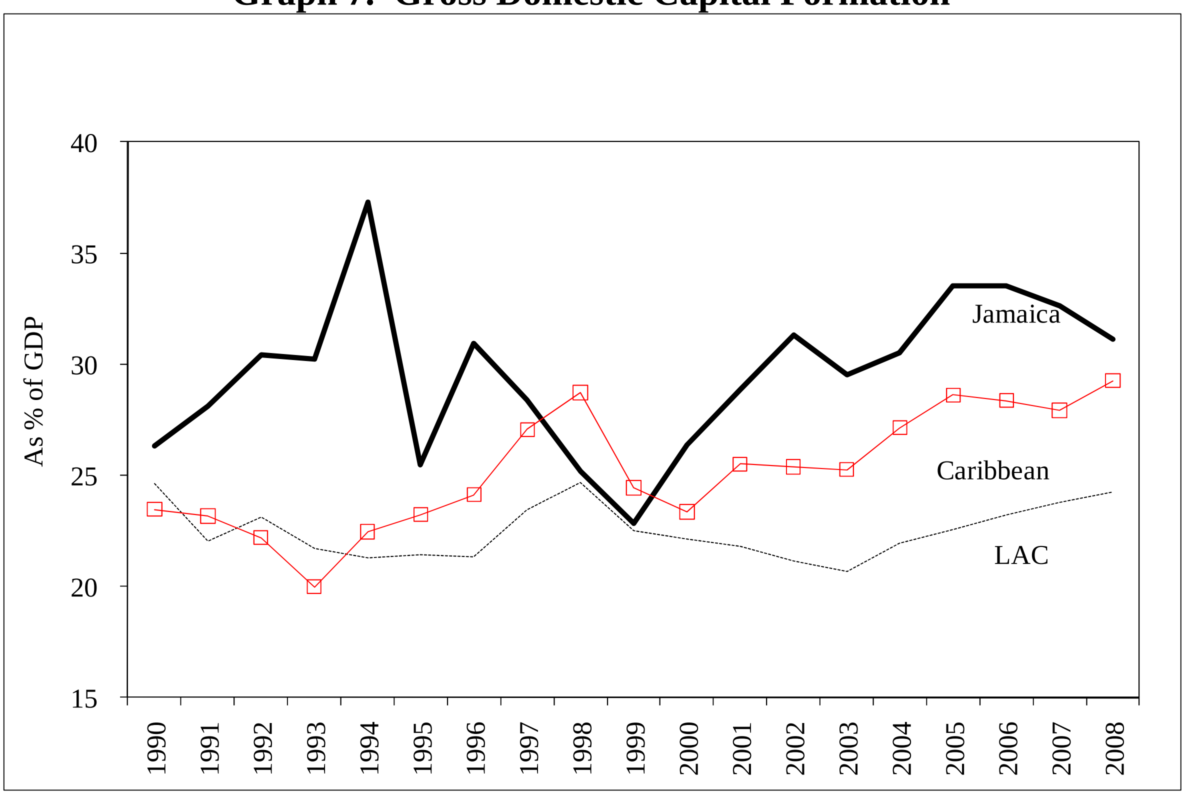
Source: IADB Finance Department and World Bank Global Economic Monitor. ** First semester average

Graph 6. Per Capita GDP



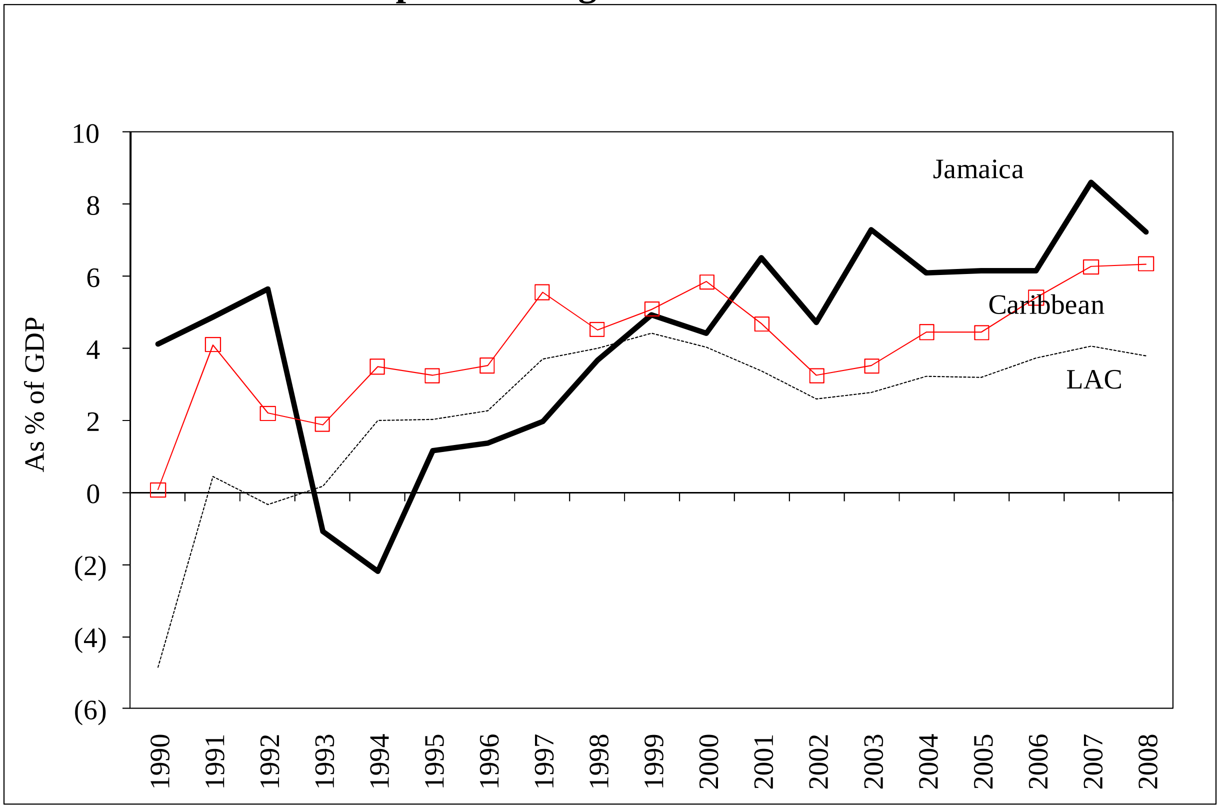
Source: IMF

Graph 7. Gross Domestic Capital Formation



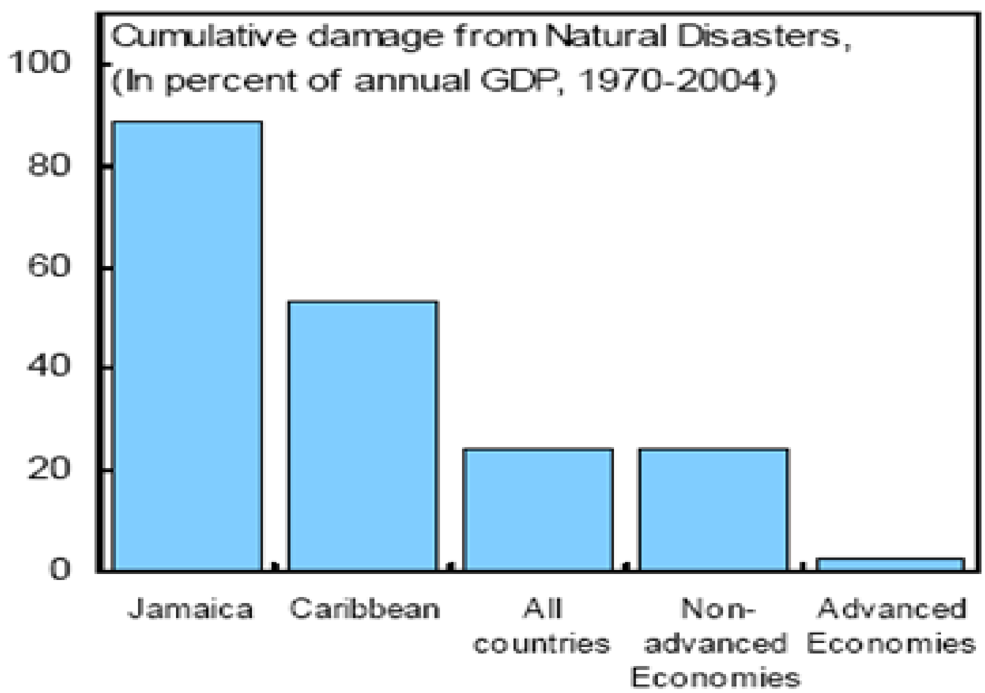
Source: IMF

Graph 8. Foreign Direct Investment



Source: IMF

Graph 9. Cumulative Damage from Natural Disasters (in percent of annual GDP, 1970-2004)



Source: IMF

TABLE 2: BANK ASSESSMENT OF 1998 COUNTRY STRATEGY		
Development Challenge (1998 Strategy)	**Indicator of Development Impact (1998 Strategy)**	**Results as of 8/31/2005**
I. Promotion of sound macroeconomic conditions		
Stability	• Low inflation • Reduced interest rates	**Partial – Positive** • Inflation slightly higher than 1997 but consistently below 15% • Interest rates have declined but experienced occasional spikes
Sustainability	• Sustainable fiscal position • Sustainable balance of payment position	**Partial – Positive** • Fiscal deficits reduced over time • Current account deficit larger, but international reserve position stronger
Resolution of financial crisis	• Resolution of financial crisis and strengthening of regulatory and super-visory framework for financial sector	**Positive** • Financial crisis resolved in orderly manner • Regulatory and supervisory framework strengthened
II. Private sector development		
Address bureaucratic, regulatory, institutional impediments	• Energy sector privatization	**Limited** • Power sector privatized but Bank did not participate in privatization. Bank did contribute to strengthening of regulatory framework
Tourism and infrastructure impediments	• Tourism master plan • Implementation of North Coast Highway Program • Maintenance and upgrades of infrastructure	**Partial – Positive** • Tourism master plan completed • Very slow implementation of North Coast Highway and cost overruns • Routine maintenance system established but no progress to date in the implementation of the maintenance program in part due to fiscal constraints • Emergency reconstruction following natural disasters but implemented slowly and with initial problems in quality
Agriculture and irrigation	• Capital investment, training and better management • Resolution of water supply issues	**Partial – Positive** • Investment in productive projects on-going. Capacity to provide agricultural support services increased but project implementing slowly because of fiscal constraints • Water Resources Master Plan 95% completed • Irrigation project signed only recently
III. Public sector modernization		
Deepen and widen public sector modernization	• Improved transparency and decentralization • Public sector restructured for greater efficiency and budgetary restraint	**Limited** • No progress with respect to civil service reform • Process of decentralization to parishes supported but progress limited, because of fiscal constraints and reluctance to implement policy reforms • Health sector decentralization was realized leading to greater client satisfaction
Land administration	• Efficiency in land registration system and land markets • Establishment of good land information system	**Very limited** • Land project had limited success in land registration • Not achieved. Removed from project during rescoping
Export and investment promotion	• Improved efficiency in export procedures	**None** • No activity in progress with regard to export procedures
IV. Social sector development		
General improvements in quality, accessibility and management of social services	• Improved quality of service • Improved efficiency	**Positive** • Efficiency, transparency and targeting of social safety net improved • Transaction costs reduced
Violence reduction	• Reduction in urban violence	**Limited so far** • Citizen Security and Justice Program slow to implement because of fiscal constraints
Expand access to and quality of basic education	• Number of schools constructed • Introduction of new curriculum	**Limited so far** • No school constructed because of fiscal constraints • New curriculum introduced in primary schools country-wide
Expand access to low-income housing and catalyze community change	• Provision of low-income housing	**None** • Planned IDB loan dropped from pipeline
V. Environmental management		
Ensure sustainable provision of water and sanitation	• Expand access to potable water • Improved financial viability of National Water Company	**Limited so far** • Rural Water Program slow to implement because of fiscal constraints and circumscribe by partial cancellations • Kingston Water Supply Rehabilitation project not yet initiated
Improve solid waste management	• Improved environmental quality • Services made financially sustainable	**Limited** • Project implementation constrained by budgetary allocation • Besides drafting of Tipping Fees Regulations, no progress towards financial sustainability

Source: GN-2241-1.

Table 3. Recommendations from previous CPE

1. The next country strategy should explain clearly the nature of the desired future financial relationship between the Bank and Jamaica. It should explain the rationale for the projected declining pattern of Bank outstanding debt outlined in the programming memorandum, and analyze the economic costs and benefits to the country of this pattern of financing.
2. The next country strategy should also analyze the non-financial characteristics of Bank operations that may be contributing to the country's preference for other forms of finance. The issue to be explored here is whether changes to policies and practices within the Bank (including transaction costs, project rigidities, restrictions on eligible expenditures, counterpart, etc.) could plausibly lead to at least maintenance of the IDB share of Jamaican public financing.
3. Any proposed investment project in infrastructure or the productive sectors should have an explicit rate of return calculation. Jamaica cannot afford to borrow for investment projects with a low economic rate of return, given its large debt service obligations.
4. Lending in the productive and social sectors should be based upon clearly defined and measurable efficiency indicators. All such projects should be able to demonstrate clear fiscal returns.
5. The next country strategy should analyze carefully the macroeconomic and budgetary environment within which the country will be operating. Any proposed project should include an explicit analysis of how it expects to achieve intended results in light of such conditions.
6. More realistic medium-term goals, indicators and targets need to be established under the broader priority themes, reflecting the capacity of the country and its agencies for achievement. As this is to be a medium-term process benchmarks and milestones should be provided in order to be able to measure progress.
7. The next country strategy should also look more deeply into the problems of the private sector in Jamaica and into opportunities for the Bank to develop effective operations with private actors. Both the PRI and the IIC should consider operations in the country, to complement the generally successful work undertaken thus far by the MIF.

Source: RE-310, pages 29-30.

Graph 10. Multilateral Debt

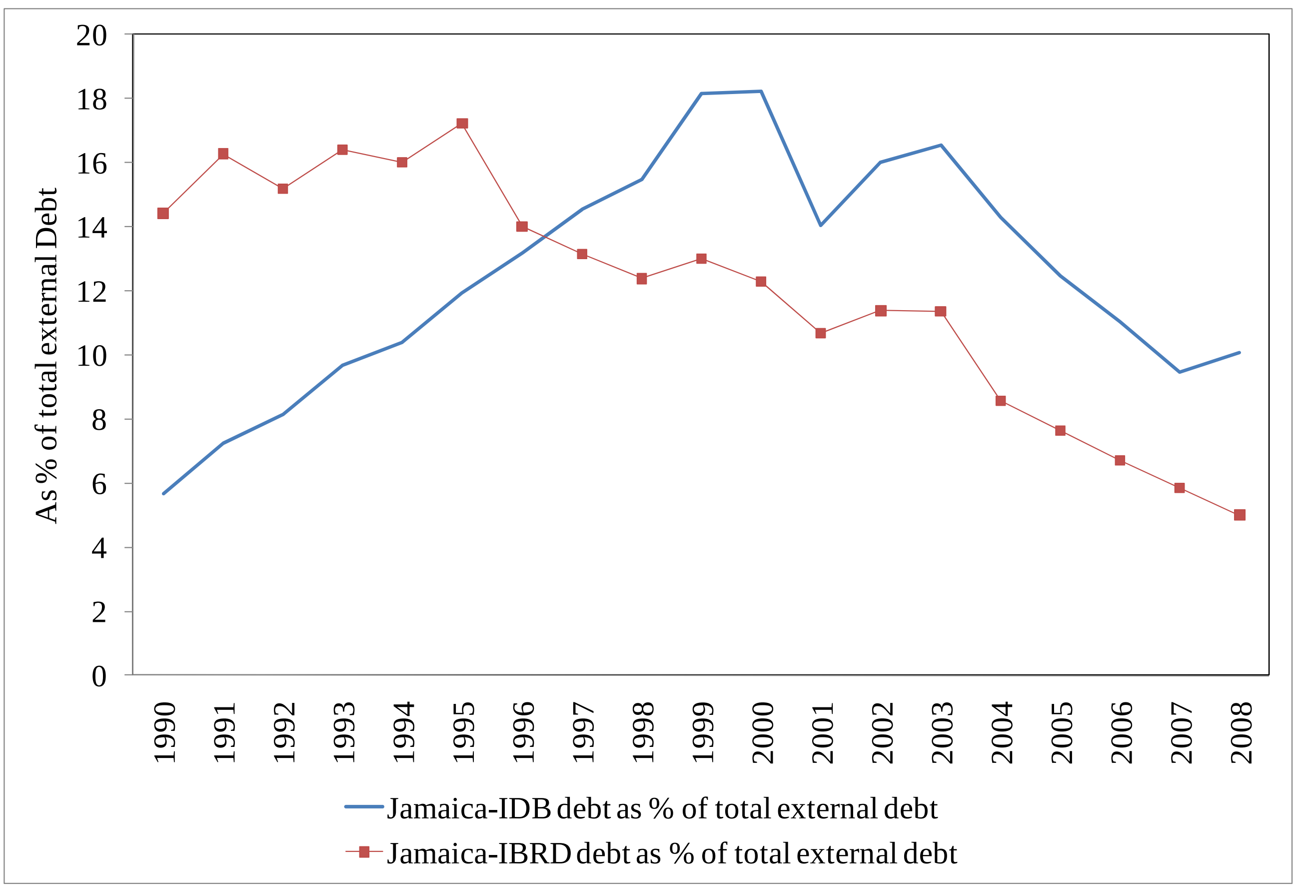


Table 4. Approved Technical Cooperations 2003-2008

Approval Year	Operation Number	Operation number (post approval)	Operation name	Fund detail	Sector Detail	Original Approved Amount
2003	JA-T1001	ATN/SF-8391-JA	Effective Market Design	CT/Intra	Reform/ Modernization of the State	0.01
	TC0303033	ATN/SF-8248-JA	Study Tour by the Ministry of Education, Youth and Culture	CT/Intra	Education	0.01
	TC9710220	ATN/SF-8221-JA	Strengthening NGO Community	Regular TC	Social Investment	0.63
	TC0201049	ATN/SF-8238-JA	Modernization of Statistical Institute of Jamaica	Regular TC	Reform/ Modernization of the State	0.36
	TC0201075	ATN/SF-8594-JA	Support for Poverty Monitoring and Social Policy Analysis	Regular TC	Social Investment	0.20
2004	JA-T1002	ATN/SF-8667-JA	Review of the Tax System in Jamaica	Regular TC	Reform/ Modernization of the State	0.50
	JA-T1003	ATN/FC-8711-JA	Establishment of an Energy Efficiency Fund	French Caribbean Trust Fund	Energy	0.05
	JA-T1008	ATN/SF-8849-JA	Emergency Assistance due to Hurricane Ivan	Technical Cooperation Emergency	Environment and Natural Disasters	0.20
	JA-T1004	ATN/SF-8885-JA	Household Expenditure Survey	Regular TC	Social Investment	0.66
	JA-T1007	ATN/CC-8814-JA	Information and Knowledge Building for the FTAA	IDB-Canada Trade Fund	Trade	0.12
	JA-T1010	ATN/NI-9007-JA	Gender Sensitization in HIV/AIDS Prevention and Mitigation	Social Inclusion Trust Fund	Health	0.04
2005	JA-T1011	ATN/NI-9059-JA	Enhancement NGO Documentation & Resource Centre Facilitate Access by Disabled C.	Social Inclusion Trust Fund	Social Investment	0.03
	JA-T1012	ATN/SF-9056-JA	Study Tour by Ministry of Local Government, Community Development & Sport	CT/Intra	Reform/ Modernization of the State	0.01
	JA-T1013	ATN/IM-9350-JA	Jamaican Angel Investor Network	Italian Trust Fund for MIF Project Preparation	Capital Markets	0.02
	JA-T1014	ATN/JF-9453-JA	Citizen Security and Justice- Focusing on Trafficking in Persons	Japan Special Fund	Social Investment	0.12
2006	JA-T1017	ATN/NI-9809-JA	Documenting HIV/AIDS Intervention Programmes for Jamaican Children	Social Inclusion Trust Fund	Health	0.04
	JA-T1018	ATN/NP-9821-JA	Country Environmental Assessment	The Netherlands and IDB Partnership Program in Environment	Environment and Natural Disasters	0.11
	JA-T1009	ATN/JF-9951-JA	Absenteeism in Jamaica's Primary Schools	Japan Special Fund	Social Investment	0.12
	JA-T1015	ATN/OC-9776-JA	Strengthen Government Capacity to Manage for Results	PRODEV/ORC	Reform/ Modernization of the State	0.45
2007	JA-T1025	ATN/OC-10562-JA	Emergency Assistance Due to Hurricane Dean	Technical Cooperation Emergency/ORC	Environment and Natural Disasters	0.20
	JA-T1019	ATN/OC-10747-JA	Natural Hazard Management in Urban Coastal Areas	Fund for Financing of Disaster Prevention/ORC	Environment and Natural Disasters	0.80
	JA-T1020	ATN/KP-10363-JA	Land Titling and Registration	Korean Poverty Reduction Fund	Reform/ Modernization of the State	0.12
	JA-T1022	ATN/SF-10530-JA	Education Sector Exchange, Mathematics and Interactive Radio Instruction	CT/Intra	Education	0.01
	JA-T1023	ATN/SF-10529-JA	Competitiveness Enhancement Program	CT/Intra	Private Sector Development	0.01
2008	JA-T1021	ATN/KK-10825-JA	Financial Services through Mobile Devices	Korean Poverty Reduction Fund	Private Sector Development	0.10
	JA-T1024	ATN/OC-10991-JA	Program to Support Implantation Medium Term Action Plan to Manage for Results	PRODEV/ORC	Reform/ Modernization of the State	1.60
	JA-T1033	ATN/OC-10848-JA	Reliant Communications Expansion Project	Infrastructure Project Preparation Fund/ORC	Information Technology and Telecom	0.05
	JA-T1034	ATN/SF-10854-JA	Civil Registry Management	CT/Intra	Reform/ Modernization of the State	0.02
	JA-T1035	ATN/OC-11002-JA	Evaluation of the National Youth Service	Social Fund/ORC	Social Investment	0.40
	JA-T1037	ATN/FC-11305-JA	Strategy for the Divestiture of Air Jamaica	French Caribbean Trust Fund	Private Sector Development	0.35
	JA-T1039	ATN/ED-11447-JA	Kingston Inner-City Competitiveness Initiative: A Social Capital Dialogue	Social Capital, Ethics and Development Fund	Social Investment	0.10
	JA-T1040	ATN/MD-11316-JA	Assessment of the Regulatory and Legal Framework for Agricultural Insurance	Multidonor Disaster Prevention Trust Fund	Capital Markets	0.06
	JA-T1041	ATN/FG-11443-JA	Evaluation of Strategic Option for Reform of Development Bank of Jamaica's	Spanish General Cooperation Fund	Capital Markets	0.10
						7.60

Source: IDB

Table 5. Approved MIF

Approval Year	Operation Number	Operation number (post approval)	Operation name	Fund	Sector Detail	Original Approved Amount mill. US$
2004	JA-M1002	ATN/MT-9003-JA	Strengthening the Jamaica Fair Trading Commission	MTC	Trade	0.30
2005	JA-M1003	ATN/ME-9592-JA	Productive Integration of Microenterprises in Jamaica	MSE	Microenterprises	0.42
	JA-M1004	ATN/MT-9530-JA	Strengthening Competition in Telecommunications: Support Office of Utilitities R.	MTC	Information Technology and Telecomm	0.50
	JA-M1006	ATN/ME-9593-JA	Agricultural Marketing Project	MSE	Agriculture and Rural Development	0.10
2006	JA-M1009	ATN/ME-9724-JA	Financial Management for Small Tourism Entities	MSE	Tourism	0.01
	JA-M1007	ATN/ME-9666-JA	Upper Rio Grande Valley and Holywell Commercial Development Project	MSE	Microenterprises	0.09
	JA-M1008	ATN/ME-10069-JA	Competitiveness of Small Hotels	MSE	Tourism	0.72
2007	JA-M1010	ATN/ME-10342-JA	Expanding Access to Rural Micro Credit in Jamaica	MSE	Microenterprises	0.20
2008	JA-M1011	ATN/ME-10862-JA	Pilot Enterprise Risk Management & Financing Program (ERMFP) for MSMEs	MSE	Microenterprises	0.15
						2.50

Source: IDB

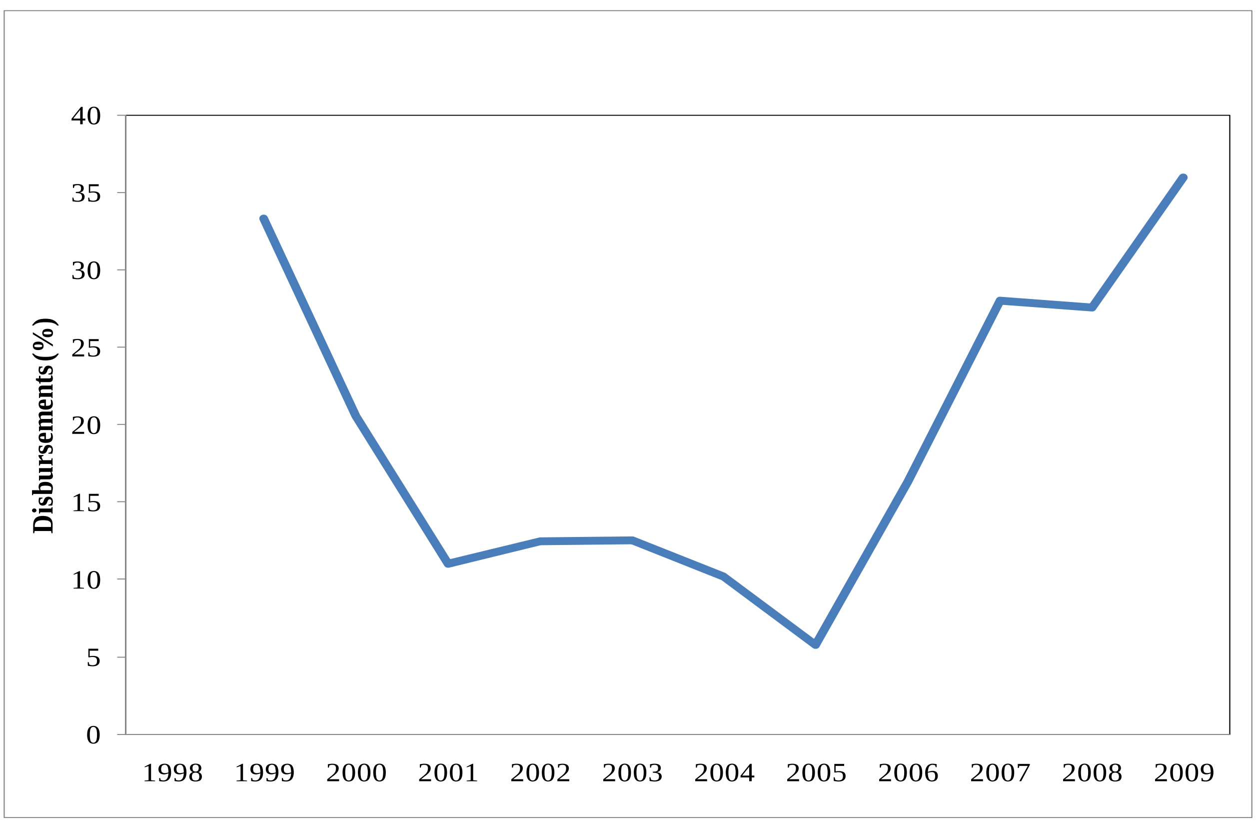
Note: MTC refers to Technical Cooperation Facility and MSE to Small Enterprise Development Facility.

Table 6. Rescoping Exercise

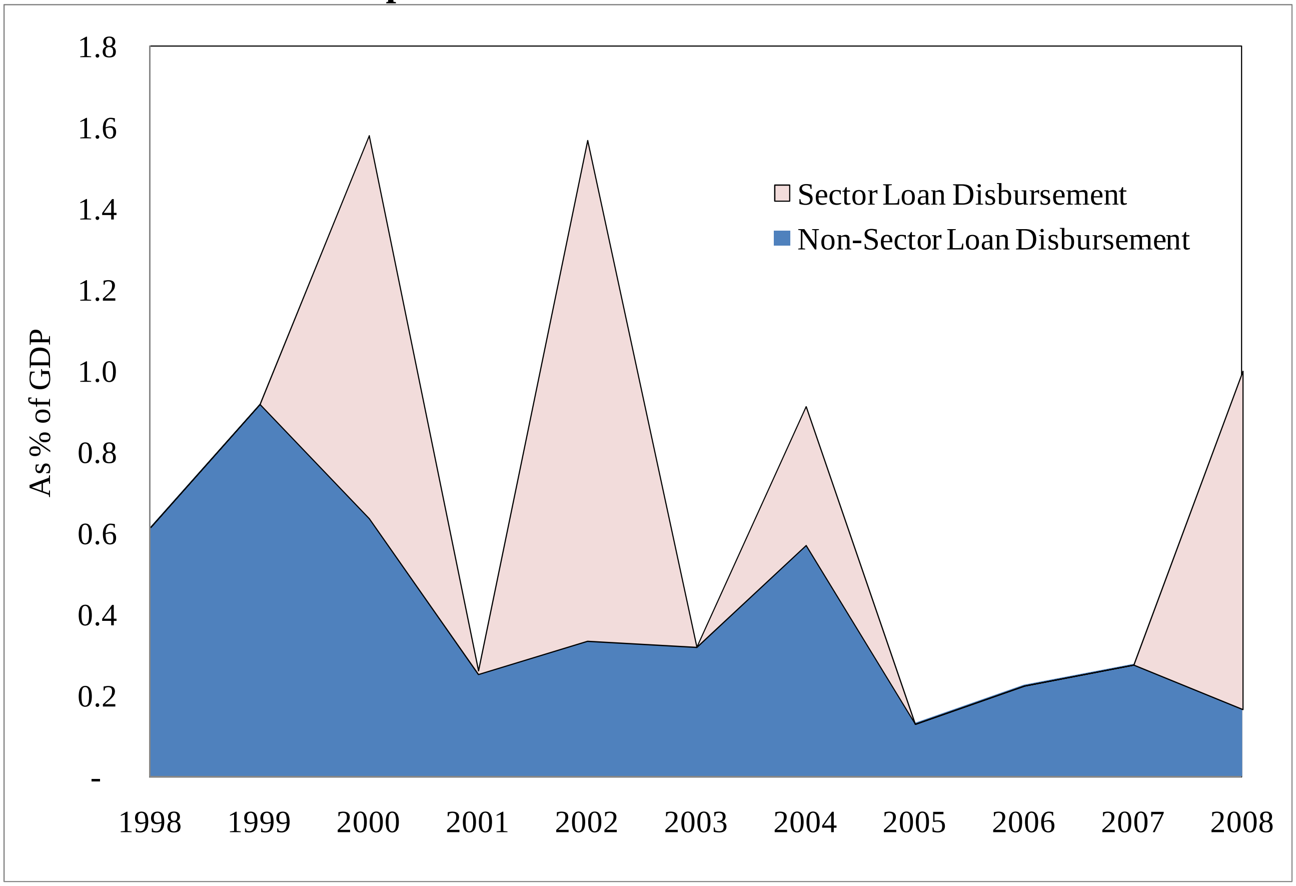
Nr.	Project name	Cancellations 2004	% of original amount	% available (6/04)	Additional cancellations	Major changes
JA0035	Solid Waste Management	3.2	28%	41%	4.5	Scope reduced from construction of 5 sanitary landfills and closure of 3 dumpsites to one landfill and one dumpsite
JA0107	Parish Infrastructure Development Program	18.7	53%	72%	4.7	All uncommitted infrastructure cancelled
JA0050	Land Administration and Management Program	2.7	32%	46%	0.4	All uncommitted activities unrelated to the core pilot for Land Registration in St. Catherine cancelled
JA0059	Basic and Primary Education Program III	2.5	7%	10%		Elimination of the School District Pilot and study of absenteeism
JA0111	Agricultural Support Services	4.2	19%	24%		The cancellation was equally distributed among all the components of the project without providing specifics
JA0105	Citizen Security Program	2.1	13%	15%		Initiatives related to criminal justice system cancelled
JA0113	Rural Water Program	2.0	20%	21%		Six out of 10 water programs cancelled
JA0043	National Road Services Improvement [1]/	6.0	24%	26%		Road maintenance works reduced by 61%. Design of future road investment cancelled
JA0116	Information and communication technology	8.5	50%	50%		Cut across the board

[1]/ An additional US$3 million was reallocated to Hurricane Ivan reconstruction works.

Graph 11. Disbursement as % of undisbursed amount previous year



Graph 12. Disbursement as a % of GDP



Graph 13. GDP Growth and Net Cash Flow

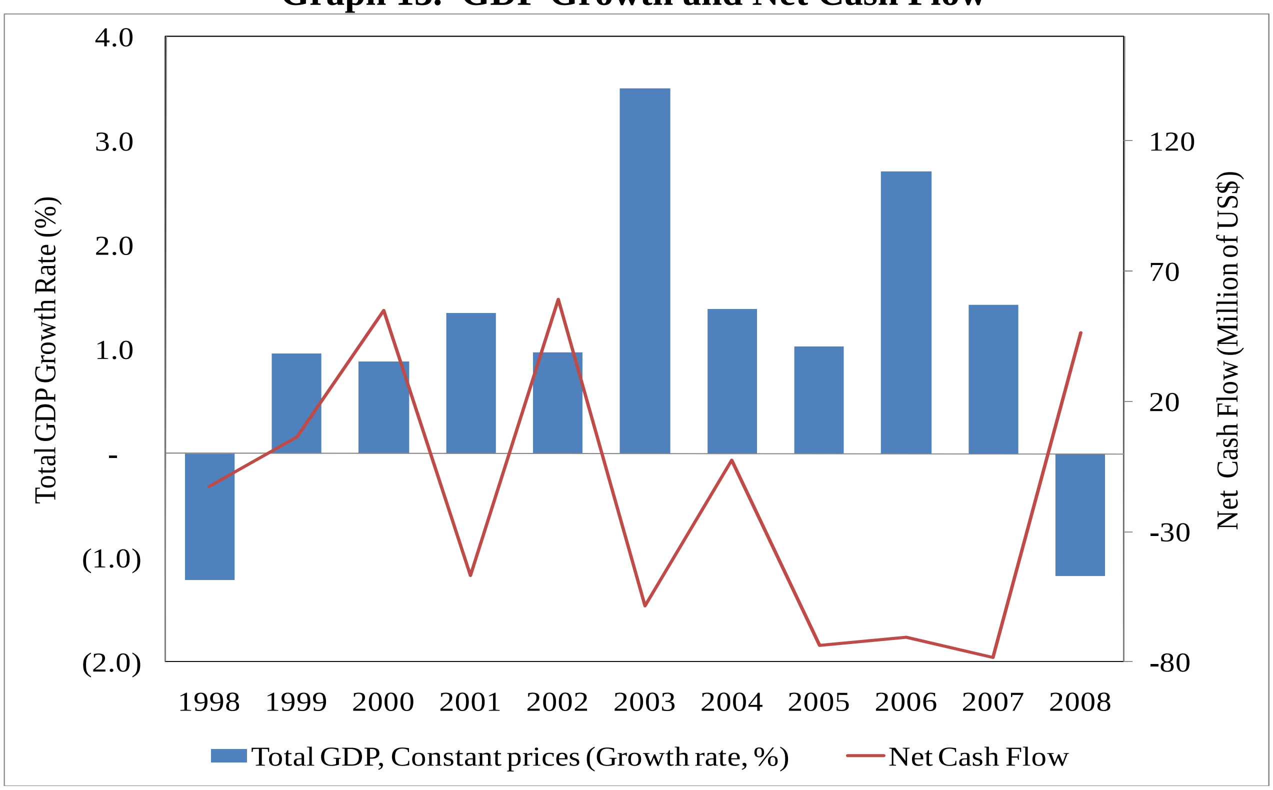


Table 7. Ex ante Evaluability and Observed Changes During Execution

Approval year		Project	Baseline	Target	Completeness	Observed changes from 1st to Last PPMR or PCR			
						Indicators	Target	Added	Subtracted
1996	JA0044	Northern Coastal Highway	0%	50%	0%	-	-	x	-
1997	JA0051	Health Sector Reform	0%	0%	0%	-	-	-	-
1999	JA0107	Parish Infrastructure	0%	0%	0%	-	x	-	-
	JA0035	Solid Waste	0%	64%	0%	-	-	x	-
	JA0050	Land Administration	N/A	N/A	N/A	-	-	x	-
2000	JA0111	Agricultural Support Services	0%	0%	0%	-	-	x	x
	JA0059	Education III	0%	100%	0%	x	x	-	x
2001	JA0043	National Road Services	100%	100%	100%	x	x	x	x
	JA0105	Citizen Security and Justice	0%	100%	0%	-	-	x	x
	JA0113	Rural Water	0%	50%	0%	-	x	x	x
	JA0115	Social Safety Net	0%	0%	0%	-	-	x	x
2002	JA0116	ITC	20%	80%	20%	-	-	x	x
	JA0123	Emergency Torrential Rains	N/A	N/A	N/A	x	-	x	x
2004	JA0106	National Irrigation	100%	100%	100%	x	x	-	-
	JA0114	Kingston Water	60%	100%	60%	-	-	x	-
2008	JAL1005	Youth Development I	100%	100%	100%	-	-	-	-
	JA-L1015	Emergency for Flood Damage	N.A.	N.A.	N.A.	-	-	-	-
	JA-L1016	Transportation Rehabilitation	100%	100%	100%	-	-	-	-
	JA-L1021	Supplemental for Education	100%	100%	100%	-	-	-	-
	JAL1001	Competitiveness	100%	80%	80%				
	JAL1002	Education Sector Reform	0%	100%	0%				
	JAL1003	Public Financial & Performance Manag.	63%	13%	0%				
	Total projects with 100% (without emergency)		30%	45%	25%				
	Total indicators		42%	62%	33%				

Source: Loan Documents, and PPMRs and PCRs

Table 8. Partial Survey of Road Conditions in the National Network 1999 and 2005

	Condition/Km		
	Good	**Fair**	**Bad**
1999 Percentage	28%	28%	44%
2005 Percentage	12%	36%	52%

Source: Transportation Infrastructure Rehabilitation Program (JA-L1016).