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Jamaica: Country Assistance Strategy & Bank Restructuring and Debt Management Program Adjustment Loan

This is an interesting CAS. It presents us with a number of challenging issues to which there are no easy answers. The same applies to the accompanying adjustment operation. Let me make some selective comments on these issues as we see them, starting with the CAS itself.

Here, there are two basic sets of issues to consider: what has --or what has not-- been happening in the context of Jamaica's economic development in recent years; and what has been or could be the Bank's response. Let me address each in turn.

On the recent economic performance, which has been in a context of no new Bank commitments since 1996, there are some intriguing questions, as others have noted in their circulated statements.

First amongst these is the puzzling situation regarding the apparent drop in the headcount ratio of poverty incidence, as set out in Box 1 on page 5, in an environment of declining per capita income, as set out in Table 1 on the opposite page. Several explanations are offered in Box 1, but no compelling reason emerges. Given the Bank's objective of poverty reduction, this uncertainty needs further clarification. However, some insights are offered in Annex E on the CAS consultation process, where some pertinent observations are made about the expansion of the informal economy and the possible links with illegal, including drug-related, activity. Incidentally, we noted from that Annex that consultations with civil society involved 18 participants from Montego Bay, and 15 from Kingston. We wondered how these participants were selected, and whom they in fact represented, apart from themselves.

Second, there is the issue of the apparent inefficiency of investment, which has been running –as Box 2 points out—at a healthy 30 percent of GDP in recent years, but has not yet resulted in other than low or even negative economic growth. Again, there are a number of explanations, including the possible role of the informal sector, but as the document states further analytical work is needed.

Third, there is the paradoxical situation with social indicators, as noted in the discussion starting in paragraph 12. While the overall statistics are quite encouraging, it is clear that there

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are severe problems associated with core poverty in both rural and urban areas, and the "youth-at-risk" issue, which has emerged as a major problem. This was confirmed by the pioneering study on "Urban Poverty and Violence" issues a few years ago.

Fourth, there is the effect of the crisis in the financial sector, which needs no elaboration as it is well explored in both the CAS and in the loan document. One statistic that stands out is that given in Figure 1 of the loan document, which shows that the fiscal costs of the banking crises as a share of GDP were only exceeded by those experienced in Indonesia and Argentina.

Fifth, and a more encouraging development, has been the determination of the government to carry through with strong corrective measures, notably fiscal tightening and measures to address the financial sector challenges and especially the increase in the public debt burden. In this context, due consideration should be given to the expressions of support from the Inter-American Development Bank and the Caribbean Development Bank, as well as to the Fund's Staff-Monitored program agreed last July.

Turning now to the Bank's past and especially potential roles, it is clear that the previous history of relations has not been an entirely happy one. As noted in paragraph 70 and Box 3, the Country Assistance Note of 1998 prepared by the OED had some telling findings in this regard. However, it is also fair to note that considerable efforts have been made to re-engage the authorities in a productive dialogue, and especially to turn around the portfolio. It is good to see that for now the entire portfolio is rated satisfactory, as pointed out in Box 3. These trends, together with the engagement of multilateral and bilateral partner institutions, offer some encouragement for the success of future activities.

As for the proposed two-year program of assistance, we can on balance support this. One might in principle have hoped for a High Case as well as the Base and Low Cases presented. However, past experience calls for caution in this respect, and we have noted staff's conclusion, in paragraph 77, that the Base Case is the most likely to materialize.

This Base Case includes out of its $220 million in proposed lending, $150 million in fast-disbursing assistance including of course the $75 million loan before us today to support financial sector restructuring. The intention is for the remainder to go to help in the social sectors, namely, via two $35 million operations intended respectively to strengthen social safety nets and reform secondary education. While we note the commendable intention to coordinate with other partners who are active in these areas, the urgent social needs of this country, especially amongst the youth, would seem to argue for bringing these operations forward sooner rather than later. We would like some comments from staff as to the timing envisaged for both operations. We also hope that the IFC and MIGA programs can come back to life in the years ahead.

Finally, on the Bank Restructuring and Debt Management Program Adjustment Loan, it is evident from the documentation that there remain critical needs in this area, and it seems likely that the Bank funds could play an appropriate role. However, there are some questions about going ahead in this fashion with a single-tranche operation in the absence of a full IMF program, a point rightly raised by Mr. Passacantando in his message yesterday. This is basically

a matter of judgement, and we are prepared to go along with the Board consensus on this issue. In any event, we wish the Jamaican authorities well in tackling the very difficult national development challenges that lie ahead.