ICR Review
Operations Evaluation Department

Report Number : ICRR11248

1. Project Data:		Date Posted :	06/19/2002	
PROJ ID:	P007485		Appraisal	Actual
Project Name :	Private Investment & Export Development	Project Costs (US$M)	52	120
Country:	Jamaica	Loan/Credit (US$M)	35	27.76
Sector(s):	Board: PSD - Capital markets (60%), Central government administration (20%), Banking (20%)	Cofinancing (US$M)	0	0
L/C Number:	L3720			
		Board Approval (FY)		94
Partners involved :	None	Closing Date	06/30/2001	06/30/2001
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

The project objective was to support internationally competitive investments aimed at increasing the sustainable export capacity of private enterprises.

b. Components

The project supported capacity building in the export sector and development of the financial sector through four components: (i) an Export Development Support Program (EDSP) to accelerate acquisition of export know-how by private firms in export market research, product adaptation and market penetration (US$4.6 million at appraisal); (ii) expansion of free-trade zones (FTZs), strengthening of the FTZ regime (including privatization of the three existing FTZs), legal authorization of privately controlled FTZs and single factory free zones, and reduction of administrative barriers to exports (US$0.3 million); (iii) a Financial Sector Advisory Program to help prepare amendments to the Banking and Financial Institutions Acts, draft regulations to the new banking legislation, improve reporting by financial institutions, assist the Bank of Jamaica to improve bank supervision capacity, help build internal capacity for a local long-term credit market, and restructure the Government's two public second-tier development banks (US$0.6 million); and (iv) a long-term credit program to finance investments expected to build or restructure largely export-oriented productive capacity (US$28 million). An additional US$1.5 million was allocated to a labor training and adjustment component, which was dropped after project initiation, since it overlapped with other initiatives.

c. Comments on Project Cost, Financing and Dates

After a six month delay in effectiveness due to slow completion of subsidiary loan agreements, cumulative disbursements were in line with appraisal estimates for the first four years of the project, then slowed in the absence of full credit program commitments. US$4 million was reallocated from the credit program to finance unexpected demand from the EDSP; another US$6.3 million of the credit line was not disbursed. However, the Bank loan mobilized a substantial amount of additional capital investment, mostly in the form of equity, bringing the total cost of investment projects supported by the credit program to US$ 110 million (compared to an estimate of $43 million at appraisal). US$7.2 million was cancelled at closing.

3. Achievement of Relevant Objectives:

(i) The EDSP (which was converted from a grant to an interest-free loan program during negotiations at the request of the Government) reached 33 companies, 80% of them SMEs. An evaluation of 25 of the firms suggests that they experienced a modest increase in exports. However, the conversion of the component from grants to subloans resulted in delays in implementation (up to 18 months from application to subloan disbursement) due to difficulties in meeting guarantee and collateral requirements. Administration was initially weak, and improvements were not implemented until the midterm review. The project cosponsored an innovative small business service which increased productivity in 41% of the 70 recipient firms and exports in 68%. (ii) Reform and expansion of the island-wide free trade regime helped reduce barriers to trade, increase competitiveness of Jamaican firms and stimulate substantial new investment. However, two important aims were not achieved (see (5) below). (iii) The Financial Sector Advisory Program achieved the modest improvements envisaged by the project, but they were totally inadequate in the face of the major financial sector crisis that erupted soon after project effectiveness. The merger of two banks into the Development Bank of Jamaica achieved cost savings by consolidating overlapping functions. (iv) Due in part to the financial crisis and recession, the increased term lending envisaged at appraisal did not occur. In addition, the Government's decision to enable the National Development Bank to undertake first -tier lending also undermined demand for lending from the approved financial intermediaries (which charged a higher spread).

4. Significant Outcomes/Impacts:

5. Significant Shortcomings (including non-compliance with safeguard policies):

The country's three public free trade zones were not privatized, as intended; their fiscal drain continued, and the more competitive services they could have offered did not materialize. Efforts to streamline the investment permit system were largely unsuccessful. Due to the financial sector crisis and recession, capacity that might have been built among the approved financial intermediaries and development banks for term lending did not materialize.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Moderately Unsatisfactory	The rating in the text of the ICR is marginally unsatisfactory; this rating is not available here for the ICR.
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	For those results that were achieved, including increased knowledge of foreign markets, legislation, and investments in private FTZs.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(i) The success of a credit line is highly dependent on the macroeconomic environment; although macro instability was discussed in the country analysis section of the SAR, it should have been incorporated into the risk section. (ii) The ability of a credit line to increase term lending is questionable. (iii) Project preparation should involve all relevant government agencies. This was not the case for the labor training and adjustment component, which was dropped because it overlapped with other initiatives.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is comprehensive and balanced.