Statement by Jan Piercy  
Date of Meeting: November 30, 2000

Jamaica: Country Assistance Strategy

1. We welcome the discussion of Jamaica’s Country Assistance Strategy. In particular, we welcome the highly selective focus of this CAS. Financial sector restructuring, social safety nets, and education sector reform in Jamaica are not only areas of the Bank’s comparative advantage, but are also sectors where it can have real added value. The CAS demonstrates how the Bank can be selective as it coordinates its efforts with many other active donors. We also commend the frank discussion of the risks to this program contained in this CAS and the careful cost/benefit analysis that the Bank has employed to justify its lending program in light of these.

Macroeconomic Situation

2. Jamaica faces a difficult challenge to reverse years of slow growth, repair the badly damaged financial system, and control the public sector debt that risks becoming unstable absent a significant fall in interest rates. World Bank support for financial sector reform is directed squarely at those problems, and we agree it should be a top priority.

3. There is, however, little room for slippage in making macroeconomic and structural reforms. In this regard, we are worried by reports that the government’s economic program for 2000-01 appears to be falling short of its goals, with lower growth and tax revenues than predicted, meaning a higher deficit and borrowing needs. We note that the CAS alludes to the problem of consensus building in Jamaica and the potential obstacle it poses to macroeconomic reform, but it is not explicit as to what this means. Concrete examples would be both helpful and advisable.

4. Jamaica will need to maintain a tight fiscal environment for the immediate future. Particularly in an environment of constrained resources, it is appropriate to focus attention on a social safety net. To the list of challenges to growth mentioned in the CAS, we would add excessive state intervention in the economy, including industrial subsidies.
5. The CAS notes that currency appreciation has added to the competition problem in the tradable sector. Our understanding from the IMF Staff Monitored Paper of Jamaica’s monetary policy is that the GOJ will allow the exchange rate to adjust with minimal intervention, which would be directed at smoothing volatility rather than guiding the level of the exchange rate. A return to competitiveness in the trading sector should follow increased productivity and wage restraint achieved through labor market reform. Once immediate risks fade, the GOJ can focus on a broader development strategy, with an eye to some of the concerns listed below.

**Lending Strategies**

6. The proposed lending program places a heavy emphasis on two fast-disbursing loans aimed at financial sector restructuring which, combined, amount to $150 million. We appreciate the fact that programmatic lending is focused on a sector that has already demonstrated reforms and that the use of single-tranche disbursement is based on serious, meaningful prior actions. The magnitude of the effort, particularly the size of the necessary current surplus, is an illustration of why financial sector reform, efficiency gains from improved governance, and growth-promoting structural reforms are so urgent.

7. We reiterate the importance we attach to due-diligence diagnostics being completed prior to bringing a CAS forward. These are critical tools upon which to take informed decisions on the adequacy of national policies, processes and institutions to safeguard Bank resources, and to clearly document for the Board's consideration existing risks against which to base a decision. In particular, it is important that current Public Expenditure Reviews precede and inform the CAS. While we understand that portions of the PER have been updated, we were still disappointed that it has not been fully revised since 1996, particularly for a CAS embodying a majority fast-disbursing lending profile.

8. The fact that the Bank has recently completed draft CFAA and CPAR exercises that affirm that "accountability procedures and practices are sufficiently reliable for fast-disbursing lending" is reassuring and we commend the Bank and the GOJ for implementing these diagnostics and incorporating them into the ongoing Public Sector Modernization project. That said, a final CFAA and CPAR signed off on by the government is preferable before moving ahead with further fast-disbursing lending.

9. We agree with the general thrust of the two lending scenarios presented in Table 5. Staying on-track with the SMP benchmarks, including structural reforms, is critical to avoiding the low case scenario. However, we would also like to see a governance component incorporated into the triggers. We were pleased to learn that staff incorporated the WBI’s recent governance assessment for the Caribbean into the CAS, and hope that an action plan for implementation of final CFAA and CPAR can be integrated into one of the earlier programmatic lending operations.

10. Jamaica’s extremely poor portfolio management is a cause for concern. We are pleased by reports that project performance has improved markedly, but share staff’s concern that this may be only a temporary gain that is heavily reliant on the elimination of one particularly problematic
project. We welcome staff’s clarifications that the Bank will be simplifying project design and we strongly support ongoing efforts for further capacity building in the social safety net and education projects to ensure more sustainable project implementation.

11. Table 4 suggests that there are a variety of different donors involved in Jamaica, including in those sectors where the World Bank will be targeting its lending over the next several years. We had been concerned about the precise division of labor that is envisioned in the three sectors of relevance for this CAS, but appreciate the clarifications we have since received. Given the vast and complex development agenda, continued close coordination of donor activities will be critical. As a general rule, we would also like to see how the Bank’s financial commitments in various sectors compares with those of other donors in dollar terms.

Public Management

12. We appreciate the recognition in the CAS that, despite progress, the implementation of a significant portion of the public sector reform agenda still lies ahead. This does not bode well for the ongoing public sector modernization project, and it would be useful to know the precise nature of the problems that exist in this project and why most of its funds remain undischarged. We note that the CAS has no reference to any follow-on to this loan. This is troubling, given that a recent Booze Allen study, financed by USAID, identified significant bottlenecks in government approval of investment projects that constrain both foreign and domestic investment. In addition, many observers believe that the size of the informal sector to a large extent reflects the efforts of legitimate business enterprises to avoid the encumbrances of the GOJ bureaucracy. Given that improved governance would go a long way towards restoring public confidence in the government, we would like to know what the Bank is doing to support public sector reform. If it is leaving this task to other donors, then detail on such projects should be included in Table 4.

13. We found the CAS discussion of the current state of privatization in Jamaica to be somewhat confusing. Staff’s subsequent clarifications were helpful, but we would have preferred a fuller diagnosis directly in the CAS, which could then better inform Bank and other donor responses to the help Jamaica address its privatization challenge. If technical assistance for this purpose has been problematic in the past, as staff has given us to believe, this should be addressed up front in the CAS.

Poverty Reduction and Growth Strategy

14. According to this CAS, the main challenge facing Jamaica in the years to come is to prevent a reversal of recent declines in the incidence and severity of poverty. We agree, but are also struck by Jamaica’s impressive performance on an array of social indicators—i.e. life expectancy, female labor force participation, access to safe water, etc. We feel that it is imperative, therefore, that both the GOJ and the Bank itself target their social sector assistance very carefully so as to reach those populations that have remained on the margins of such progress, especially children/youth, female-headed households, and the rural poor (Box 1).

15. With the exception of the early childhood development scheme, however, it seems as if most of the proposed interventions are aimed more at improving the management of existing social
safety nets in Jamaica, more so than enhancing access by the most vulnerable groups. While it is clear that better administration of such programs is, indeed, in order, many of the operational priorities, e.g., consolidating income transfer programs, enhancing monitoring mechanisms, increasing cost recovery—could arguably be better handled through a technical assistance loan. Rather, we would encourage the Bank to use its lending instruments to ensure that these various social safety programs reach the country’s truly “high risk” populations.

16. A similar concern arises with respect to the proposed education sector loan. While we thoroughly endorse efforts to improve secondary schooling embodied in the ROSE II project, it is vital that this loan be targeted at the very poor. We understand from staff that the most crippling issue at the upper secondary level is the high attrition rate among young men, something that invariably feeds into the proliferation of violent crime recently witnessed in Jamaica. That said, the description of the loan implies that it will focus more on enhancing the quality of teacher skills and incentives, rather than on providing access to secondary education among the poor. We are also concerned that the implementation of this project will depend on the achievement of macroeconomic goals, which the CAS describes as "very ambitious."

17. Finally, we are deeply troubled by Jamaica’s exceedingly high AIDS rate when compared with the regional average. It appears that assistance in coping with this epidemic will come primarily from the World Bank’s pending regional initiative for the Caribbean. Could staff comment on what types of interventions might be envisioned for Jamaica under that initiative?

18. We applaud the Bank’s focus on analytical and advisory activities. In particular, we feel that a better grasp of the informal sector might provide a better understanding of the potential sources of economic growth and may explain the seeming anomaly of declining poverty rates in the context of a contracting official economy.

Labor

19. We share the concern over harsh and frequent work stoppages. However, to attribute work stoppages primarily to the "victimization rule" would be a mistake. In Jamaica, employers are not required by law to re-employ strikers, but do so, apparently, as a matter of practice to maintain industrial peace. We do not consider the lack of a law to re-employ strikers, in itself, as a significant contributor to poor labor-management relations.

20. We note that the Bank intends to conduct analytical and advisory activities (AAA) in a number of areas, including economic growth, with a particular emphasis on wage-setting and labor market issues. This should be conducted with a view toward improving the performance of wage setting and labor market institutions in a manner consistent with core labor standards (CLS). This can be accomplished by providing incentives to both sides to bargain collectively and abide by their agreements; ensuring internal union democracy (without heavy-handed government interference in internal union affairs); protecting workers and union officers from employer reprisal for engaging in legitimate union activities; and effective mediation and conciliation services, and other means of resolving peacefully and expeditiously, both collective and individual industrial disputes. It would be a good idea to provide different procedures and rules for individual and collective issues.
21. We encourage the Bank to work with the ILO on the labor aspects of the Social and Structural Review contemplated for the second half of FY01. Jamaican trade unions should be included in any consultations or discussions on this matter. While we understand from staff that unions were invited to the CAS discussions but did not attend, specific mention of such efforts should be included in the CAS.

22. According to paragraph 70, one of three key lessons of the previous lending period was that labor market reforms, including wage setting mechanisms in the civil service, are crucial for breaking the country’s vicious cycle of inflation. But there is no discussion of such a strategy anywhere in this document. Can staff please comment?

23. Finally, we commend the Jamaican authorities for seeing the value of making this CAS publicly available. It is a positive national demonstration of transparency by being willing to engage in a broad forum on issues often deemed "sensitive". We wish Jamaica every success as it takes the necessary steps to build a more vibrant and sustainable economic future for all Jamaicans.