ICR Review
Operations Evaluation Department

Report Number : ICRR11639

1. Project Data:		Date Posted :	08/01/2003	
PROJ ID :	P073756		Appraisal	Actual
Project Name :	Second Bank Restructuring And Debt Management Program Adjustment Loan	Project Costs (US$M)	75	75
Country:	Jamaica	Loan/Credit (US$M)	75	75
Sector(s):	Board: FSP - Banking (75%), Non-compulsory pensions insurance and contractual (20%), Capital markets (5%)	Cofinancing (US$M)	0	0
L/C Number:	L7150			
		Board Approval (FY)		03
Partners involved :	None	Closing Date	12/31/2002	12/31/2002

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2. Project Objectives and Components

a. Objectives

The objective of the second BRDP loan was to support government actions aimed at completing the resolution of the financial sector crisis, thereby achieving the medium term objectives of (i) contributing to placing the economy on a growth path, (ii) reducing the vulnerability of the financial system to future crises, and (iii) restructuring and managing the public debt arising from the crisis.

b. Components

The conditions for effectiveness of the loan were the second phase of the government's Bank Restructuring and Debt Management Program: (i) sale/restructuring/resolution of all intervened financial institutions in which the crisis management agency FINSAC had majority equity stakes; (ii) phase-out of FINSAC, including disposal of the entire portfolio of non-performing loans (NPLs) and other assets (e.g. real estate, hotels); (iii) government take over of all outstanding FINSAC obligations and servicing them in cash; (iv) strengthening the legal, regulatory and supervisory environment for both bank and non-bank financial institutions; (v) improving the financial infrastructure for renewed bank lending by creating the legal framework to permit the operation of credit bureaus; and (vi) continued implementation of the government's debt management strategy.

c. Comments on Project Cost, Financing and Dates

This was the second of two single tranche Programmatic Adjustment Loans, each for $ 75 million, disbursed in full upon effectiveness (11/4/02). The first BRDP disbursed in December 2000. The IDB and CDB supported the program with loans of $150 and $25 million respectively. In addition, during this period, the Bank made a $75 million Emergency Recovery Loan (FY01) to help deal with the multiple shocks of the decline in tourism after Sept. 11, 2001, domestic violence and floods.

3. Achievement of Relevant Objectives:

Although BRDP I and II provided a total of $150 million, this contributed to restructuring only about 5 percent of the total debt incurred by the government as a result of its interventions during the crisis. The main impact of the loans lay in their support of structural reforms. The government carried out all of the components listed above, as conditions of effectiveness of BRDP II. **Completing the resolution of the financial sector** : The government sold its majority stake in the two remaining large intervened financial institutions to foreign private investors; both are performing satisfactorily. The government is also in the process of disposing of minor equity stakes in the financial sector, and has no controlling stakes in any institution; it has sold the non-performing loan portfolio. FINSAC was closed in July 2002. **Reducing the vulnerability of the system to future crises** : The government enacted new legislation and strengthened existing regulatory and supervisory agencies in the banking sector, including measures to achieve compliance with the remaining Basle Core Principles that had been materially (5) or fully noncompliant (1). The government established a new regulatory entity for the non-bank sector and enacted an Insurance Act. **Restructuring the public debt** : The large stock of illiquid FINSAC debt was converted into tradeable government bonds, thus providing liquidity to the restructured financial sector and making the fiscal cost of the crisis explicit so as to impose discipline on the government in servicing the debt.

4. Significant Outcomes/Impacts:

The banking sector is now better placed to handle shocks and to support private sector led growth. The structure, regulation and supervision of the financial system have improved substantially. However, see section 5, below.

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

In terms of the **management of the public debt**, the achievements of the loan have been limited. The government had committed to a macroeconomic framework within which the public debt would be placed on a sustainable path. In the process of restructuring the financial sector, the government replaced non-performing loans at banks with government bonds. As a result, about one-third of all banking sector assets in Jamaica are government bonds; if the government is not able to continue to service them on time, in cash, the quality of banking system assets could erode rapidly. The ICR notes slippage in the macro targets, especially relating to fiscal deficits. **The resumption of economic growth** (a necessary condition for managing the public debt in a sustainable manner) has not occurred: GDP growth remains at the very low level of about 1 percent per year. The ratio of debt/GDP, which was about 130 percent at the time of approval and projected to fall by both the IMF's Staff Monitored Program and the CAS, actually rose to about 150 percent.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The project achieved several of its major objectives, but there were significant shortcomings in some (see Section 5).
Institutional Dev.:	Substantial	High	As noted in the text of the ICR, the loan brought far-reaching changes in the regulatory and supervisory framework which move Jamaica toward international best practice. Institutional reforms, including privatization, have created the environment for a more competitive, stronger financial sector, able to support private sector led growth.
Sustainability:	Likely	Non-evaluable	The text of the ICR notes that a rating of uncertain would have been appropriate. The non-evaluable rating is not available to the ICR. The reform effort has been strong and is unlikely to be reversed, but if the macro situation continues to deteriorate, the financial sector reforms are likely to be derailed.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
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:

(a) Single tranche programmatic loans provide flexibility to the government and the Bank to design loans with achievable objectives, taking into account events as they develop, and avoid locking the borrower in to overly ambitious, politically sensitive and risky conditionality. BRDP II was able to take into account the large external shocks that occurred after the first loan, without adverse reputational impact for the Bank or the borrower. (b) The argument for assisting the reform process in a country must be predicated on a clear assessment of the substantial likely impact of the reforms, while recognizing the risks. The presence of risks is not necessarily an adequate argument against providing assistance. However, since macro risks cannot necessarily be mitigated within the context of the sector adjustment loan, the Bank needs to continue to work with the government to ensure that macro volatility does not undo the achievements of the program.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR gives an excellent, very clear account of project implementation. However, it tends to be repetitive and could have been shortened through cross-referencing instead of repeating some of the material. In addition, although the ICR refers to a failure to meet SMP/CAS targets, it does not provide either the targets or a full set of indicators. A table showing time series for the key macro variables would have helped the reader.