Statement by Girmai Abraham
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**Jamaica: Country Assistance Strategy**

What is happening in Jamaica is a real puzzle that normal economic fundamentals fail to explain. It is a situation where key socio-economic and political indicators are all sound but fail to provide impetuous to growth, which has remained below zero for much of the last twenty-five year. This is despite the fact that investment to GDP ratio has always been at about 30 percent, which is high by all standards; inflation is under control, most of price and trade distortions have been removed, and the incidence of poverty has witnessed a declining trend. Also in other indicators such as life expectancy, provision of safe water and basic health services, gender involvement, corruption, governance and infant mortality rate, Jamaica favors well vis-à-vis other middle-income countries. Why the economy is not picking up despite all these strong positive indicators warrants more rigorous analysis and an intensive ESW program. Although the proposed CAS provides an in-depth analysis for the status quo in Jamaica, more questions than answers emerge and many underlying causes for the poor performance remain unexplained.

The financial sector, particularly the insurance sector, appears to be the main force pulling the economy back. By pushing the level of domestic debt to more than 140 percent of GDP, resulting in devoting a preponderous portion of the budget to servicing interest payments, the sector has been a continuous and heavy drain on the budget. The system has not only failed to generate an overall budgetary surplus that could be directed to public investment, but also crowded out private investment. Hence comes the question about the sources of funding for the high level of investment referred to above. It is clear from the document that it is not the real productive sectors such as manufacturing, agriculture and export sectors that are causing the spiral rise in interest rates. The most likely cause seems to lie with the informal/underground market whose output cannot be easily captured in the official statistics. This is also evident from the fact that the bulk of these investments flow mainly to the low-risk/high-yield government securities, indicating a passive attitude of the financial sector towards the production sectors of the economy.
The setting-up of the FINSAC confirms the Government's due diligence in tackling one of the root causes of the dilemma the economy is mired in, i.e. the unsustainability of domestic debt level and its consequences on the performance of the economy. While we believe that FINSAC is playing a crucial role in keeping the financial sector afloat through divestment from public sector ownership and tackling the problem of non-performing loans, much still remains to be done for a long period that could go beyond the life span of the FINSAC. Capacity building, strengthening the supervisory function of the Bank of Jamaica and other financial supervisory bodies, matching maturities of assets and liabilities, creating a more flexible labor market, rationalizing the deposit insurance system, addressing governance and practices of related parties, and re-capitalization of banks, are all complex areas that require strategies with a long-term vision.

The other difficulty besetting the Jamaican economy is violent crime and the attendant social ills, including money laundering and drug trade, with their devastating effects on the youth. Inequality in living standards is also having a spillover effect on the education system as described in paragraph 14. Bank involvement in putting in place effective mechanisms and policies for combating such harmful practices as well as restructuring the education system to serve the needs of the poor should result in high return.

With respect to the proposed CAS for the coming two years, we agree with the timeframe proposed, the size and components of the lending program and the triggers for the different scenarios. We believe that in collaboration with other partners, the Bank can help the country prevent a reversal of the recent decline in the incidence and severity of poverty. However, we would like to make a few comments:

First: We strongly believe that the risk of the continuous engagement and presence of the Bank in all borrowing countries, even in situations where the environment is not conducive, outweighs the risks of a stop and go policy. Waiting until conditions deteriorate to unacceptable levels is not the wise policy. We, therefore, feel the Bank’s involvement should be guided by a long-term vision for helping the country correct its course.

Second: The proposed strategy suggests trimming the lending volume to half, US$110 million, in the event that the conditionalities set by the triggers are not met. We believe that the poor will be unnecessarily penalized if resources proposed for social protection and addressing inequity in the education system are also trimmed. We also believe that such a strategy will result in throwing more youth into the streets and hence more violence and social ills. While we agree with the idea of limiting Bank involvement in the financial sector if experience proves that good money keeps chasing bad money, we believe that the social sector component of the lending volume should not be subject to any deductions. We would appreciate Staff comments on this issue.

Third: While rationalizing the financial sector should rank at the top of Jamaica’s reform agenda, supporting rural development, particularly agriculture on which the majority of the poor depend, needs to be given some thought by the Bank and the Fund, through helping the country put in place, inter alia, a flexible exchange rate regime that enhances Jamaica’s competitiveness and thus generate more income to the poor. In this connection, the problems of the agro-industry
need special attention. We would like to be enlightened about the optimum level of domestic
debt/GDP ratio the authorities are targeting to put the economy on the right track that.

Fourth: Given the socio-economic and political fabric of Jamaica, we believe the onus of
correcting the situation primarily lies with the Jamaican people and authorities. Unlike other
borrowing countries, what Jamaica actually needs most is the facilitation of the use of available
resources more effectively and productively, rather than the flow of financial resources. We
would, therefore, expect to see continuous dialogue between the country and its IFI partners,
especially the Bank, the Fund, the ADB and other regional institutions on the appropriate policy
and regulatory mix for achieving that objective.

Fifth: While we believe that the environment for investment in the country is not ideal,
we would have expected some role by the IFC and MIGA in invigorating the private sector,
particularly through their non-financial activities. We would appreciate hearing from the staff of
both institutions about their plans, if any.

Finally, we support the accompanying operation of Bank Restructuring and Debt
Management Program Adjustment Loan as we believe that it fits well into the proposed CAS and
addresses one of the major causes of distortions in the Jamaican economy. We also wish to
commend staff for the high quality of the document.