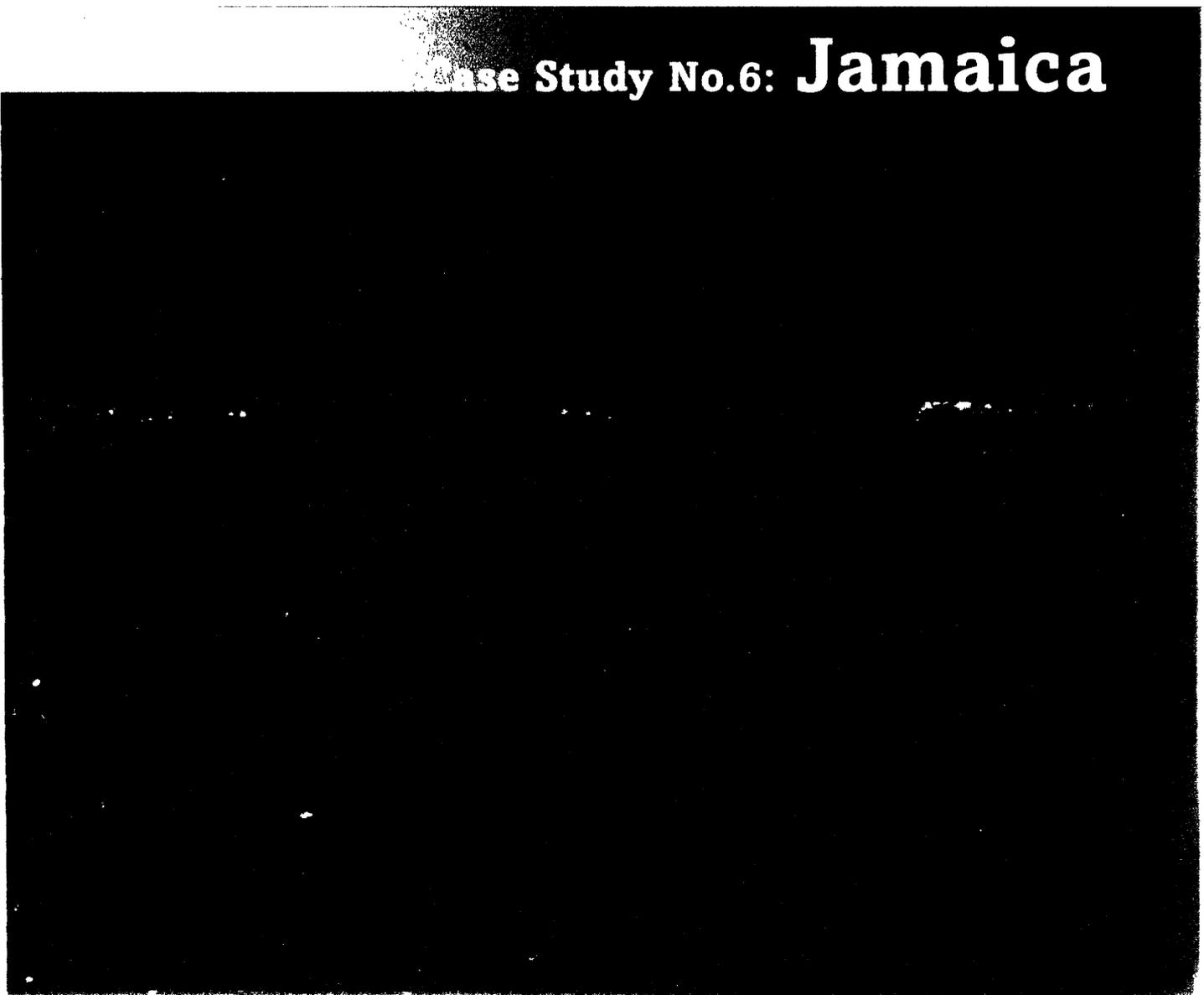


August 1998

Evaluation of
European Union Aid
to African, Caribbean and Pacific Countries

Field Phase

Case Study No.6: **Jamaica**



EVALUATION OF EU AID TO ACP COUNTRIES

Field Phase

Case Study 6: JAMAICA

Investment Development Consultancy

7, rue Rougemont,
75009 Paris, France
email: idcuk@montes.demon.co.uk

in association with Mokoro Ltd.

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LIST OF ABBREVIATIONS

ACP	Africa, Caribbean and Pacific
BOJ	Bank of Jamaica
BWI	Bretton Woods Institutions
CEDA	Caribbean Export Development Agency
EC	European Commission
EC	European Community (when referring to European Commission managed aid)
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FINSAC	Financial Sector Adjustment Company
GDP	Gross Domestic Product
GIP	General Import Programme
IADB	Inter-American Development Bank
IMF	International Monetary Fund
JAMPRO	Jamaican Investment Promotion Agency
NAO	National Authorising Officer
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
PIOJ	Planning Institute of Jamaica
RRISP	Road Rehabilitation Project
SASP	Structural Adjustment Support Programme
TA	Technical Assistance
TAs	Technical Assistants
UN	United Nations
UNDP	United Nations Development Programme
WTO	World Trade Organisation

PREAMBLE

The Evaluation of EU Aid to ACP countries is part of a general evaluation of EU aid requested by the Development Council in June 1995. The second phase of the study focuses on: (i) policy formulation; (ii) policy dialogue between the EC and the individual ACP states; and (iii) aid implementation and management.

The field stage looks at policy dialogue and aid implementation in six countries and one region concentrating on three sectors of EC assistance in each country/region. The present report is concerned with the programme in Jamaica. The other six reports cover Zimbabwe, Tanzania, Côte d'Ivoire, Cameroon, Liberia and the East Caribbean.

The field study of the Jamaica programme is based on the findings from a short visit to Jamaica that was undertaken between February 27 and March 13 1998. The in-country field work was organised around:

- the review of project files;
- interviews with staff in the EC Delegation;
- interviews with representations of the EU Member States in Jamaica;
- interviews with government officials; and
- interviews with programme and project staff.

The draft report was presented in May 1998 to the Working Group of Heads of Evaluation Services (Development) of the European Union and the Commission.

The evaluation team is grateful for the support of the EC Delegation, and for the collaboration of Government officials and the representatives of other donors (particularly Member States).

C. Montes
ACP Evaluation Field Phase Coordinator

Those wishing to obtain copies of the synthesis report or the other case studies should contact the Head of the Evaluation Unit, Common Service Relex of the European Commission.

EXECUTIVE SUMMARY

Country Context

Jamaica, with a population of 2.5 million is ranked among the middle-income countries and in 1996 had a per capita income of US\$ 2,340. The lack of a diversified export sector and the high dependence on imported energy make the Jamaican economy vulnerable to international prices and demand changes.

Jamaica has been undergoing economic reform since 1978 with an increased emphasis on market reforms in recent years. Despite initially positive results in trade reform and macroeconomic adjustment, the economic situation has deteriorated since 1995. A key factor in the past has been the inability of the Bank of Jamaica (BOJ) to control money supply. The severe crisis in the banking sector has had a severe fiscal impact. The budget deficit increased to 14% of GDP during the first nine months of 1997. About half of budgetary allocations are now required for debt servicing.

Indices of living standards are generally favourable with an average life expectancy of 70 years, and infant mortality of 24 per 1,000 births. However, macroeconomic failure has resulted in increased unemployment and deteriorating social services. A National Poverty Eradication Programme has been launched.

Current levels of aid to Jamaica are equivalent to around 4% of GDP. The EC is the largest donor providing over 50% of all grants. Other EU Member States also have active aid programmes. More than 60% of the external financing is received by the Government as loans with the Inter-American Development Bank the major source of such financing. There are a number of mechanisms through which donors coordinate their assistance programmes and in which the EC plays an active role.

EC Aid to Jamaica

EC financial assistance to Jamaica includes: (i) project aid from the National Indicative Programme (NIP); (ii) programme aid from the structural adjustment and SYSMIN facilities; and (iii) risk capital and interest rate subsidies managed by the European Investment Bank (EIB). Grant allocations under EDF 7 had reached 140 Mecu by the end of 1997 with an additional 110 Mecu of lending from the EIB. NIP allocations totalled 50 Mecu, of which 30% had been disbursed. Project aid has concentrated on the water and sanitation and roads sectors. Jamaica also benefits from a number of EC budget lines. Assistance under the EC's Caribbean Regional Indicative Programme is also significant and the Delegation in Jamaica is responsible for four regional programmes with assistance focused on higher education and tourism.

The Minister of Finance is the National Authorising Officer (NAO) for the EC assistance to Jamaica. The NAO's secretariat functions are executed by the Planning Institute of Jamaica (PIOJ), which is a department within the Ministry of Finance. A good working relationship exists between the PIOJ and the Delegation and involves regular meetings to discuss aid programme issues.

The Delegation in Jamaica is responsible for EC relations with Jamaica, Belize and the Bahamas. It is staffed by the Head of Delegation, an Economic Advisor, a Technical Advisor and an Administrative Officer. In addition to these permanent posts, there are Technical Assistants covering the water sector, rural development, and training. There are regular monthly coordination meetings with the representations of the Member States which focus primarily on the political aspects of cooperation. For the EDF 8 programming exercise the Delegation undertook extensive consultation with the Member States.

Policy Dialogue

The EC has sought to conduct an increasingly active policy dialogue with the Government. This has mainly been concerned with ensuring consistency between the EC's aid programme and the Government's policy objectives, with a more limited involvement in fiscal issues in the context of the structural adjustment support programme.

The indicative programming exercise for EDF 8 was spread over a two year period and involved a lengthy consultation process with the Member States in the preparation of the Strategy Paper and the Government in the development of the NIP. The PIOJ was positive about the exercise and felt that the resulting programme reflected well the priorities of the Government. Member States considered that they had been kept well informed, but some concerns were noted about the programming process and the realism of some implementation assumptions.

The EC has supported the economic stabilisation package negotiated between the BWI and the Government. Its involvement in the policy dialogue has mainly been in the "second tier" of structural adjustment reforms where its particular concern has been to address the social consequences of structural adjustment and the "protection" of key social expenditures. Much of this discussion has focused on the use of counterpart funds rather than social sector reforms or budgetary management improvement.

At the sector level, the EC has contributed effectively to the development of policy in water supply, small-scale agriculture and bananas. In water, key policy and strategy issues relating to access, financing and management have only recently begun to be addressed following the publication of the Government paper on Social Water in 1994. The Delegation has coordinated a donor group on water which has had some influence in assisting the Government to better define its policy stance. However, EC support in strengthening the National Water Commission (NWC) has faced considerable difficulties. Policy dialogue on bananas has been

supported by an EC budget line. This programme has achieved considerable success in the areas of disease control and credit provision. In the key policy areas relating to the negotiations with the WTO and the transitional problems faced by the sector, successful policy dialogue appears to have been more difficult.

Aid Implementation and Management

A strength of the institutional arrangements for the management of EC aid in Jamaica is that the NAO's office is fully integrated into the PIOJ. However, some concern was expressed that the system was too centralised and that this had reduced the level and quality of contact between ministries and the Delegation, particularly on policy and technical issues.

The identification of project and programme proposals is primarily undertaken by line ministries and parastatal agencies and in some cases has been too influenced by the history of previous EC aid interventions. Also, in the past there was insufficient discussion with private sector and civil society organisations in the programming of EC assistance. The heavy reliance on consultants and limited resources with the Government and Delegation for reviewing project proposals has led to some problems with project design.

Decision making procedures within Government on issues relating to the management and implementation of EC aid are often complex involving several different levels. Tendering procedures tend to be protracted and results in significant delays in securing both government and EC approval. The heavy administrative burden on the Delegation significantly reduces its ability to deploy its professional skills effectively.

CHAPTER I. COUNTRY CONTEXT

A. The Economy

Jamaica, with a total area of approximately 11,000 km², is located 145 km south of Cuba and 160 km west of Haiti. It has a population of about 2.5 million, of whom about 55% live in urban areas. Per capita GDP was US\$ 2,340 in 1996, ranking Jamaica among middle income countries. However, wealth and income distribution are heavily skewed. The main economic activities are tourism, manufacturing, bauxite/alumina mining, and in employment terms, agriculture. The country is the third largest producer of bauxite in the world and has a strong natural resource base. In 1996 alumina/bauxite exports represented more than 50% of exports.

Merchandise imports were equivalent to about 57% of GDP in 1996 while exports and tourism receipts amounted to about 51% of GDP (Table 1). The high degree of market concentration in the country's merchandise exports, the dependence on imported oil for commercial energy consumption and the relative importance of tourism, make the economy highly sensitive to international price and demand changes. Furthermore, because the island is small, severe weather can have a disproportionate impact on the economy.

Table 1: Key Economic Indicators					
	1992	1993	1994	1995	1996
Real GDP growth rates					
GDP (%)	1.5	1.3	1.0	0.0	-1.4
GDP per capita (%)	0.5	0.4	-0.1	-1.2	-2.4
Origin of GDP (in % of GDP at current prices)					
Agriculture	7.9	8.2	9.2	9.3	8.3
Mining	9.4	6.5	7.3	7.1	5.9
Manufacturing	19.4	18.5	18.8	17.5	16.8
Construction	12.8	12.6	12.0	12.8	11.7
Government services	6.6	10.2	8.3	9.2	11.4
Other services	46.2	46.1	46.3	46.1	47.7
Net Exports (in % of GDP)	-1.0	-9.6	-7.2	-12.7	-11.9
Exports of goods and non-factor services	65.7	55.0	60.0	56.1	50.9
Imports of goods and non-factor services	-66.7	-64.6	-67.2	-68.8	-62.8
Inflation (average CPI) (%)	77.3	22.1	35.1	19.9	26.4
Current account (in % of GDP) (1)	-0.1	-1.4	0.3	-5.0	-3.8
Source: IMF, 1997 For fiscal year starting April 1					

B. Economic Adjustment

Jamaica's history of economic reforms dates back to 1978, following the second oil shock¹. The latest extended arrangement of the IMF was completed in March 1996. In the 1990s, and in particular since 1995, the Government accelerated the implementation of market reforms. This led initially to an improvement in Jamaica's external position, reflected in higher international reserves, elimination of external arrears, and a decline in the ratio of external public debt to GDP. However, inflation during 1992-96 remained high, averaging 24% annually. Between 1994 and 1997, per capita income declined and practically all economic indicators show a deteriorating trend. The public sector remains large, and labour relations difficult.

Despite earlier positive results in trade reform and macroeconomic adjustment, the country's situation has worsened since early 1995. Growth in domestic credit, and inflows of private transfers and foreign capital, contributed to faster growth in money supply. Liquidity support from the Bank of Jamaica (BOJ) to cushion banking institutions in crisis contributed to excessive monetary growth which was fuelled by demand pressures arising from real wage increases in the public sector² and the private sector. By late 1995, the merchandise trade account was in deficit by US\$ 1 billion. This contributed to the deterioration of the current account with a reversal of the US\$ 18 million surplus attained in 1994 to a deficit of US\$ 255 million in 1995. Additionally, depreciation of the currency induced by strong import demand and growing speculative pressures, following instability in the financial sector, triggered an acceleration of inflation.

Monetary Performance

The inability of the BOJ to control money supply has been a key factor in the continuing macroeconomic crisis in Jamaica. Despite recent steps to reform the institutional structure and autonomy, the BOJ has remained under strong political pressure to finance fiscal deficits.³

From mid 1995, the Government embarked on a policy of maintaining a stable nominal exchange rate in order to reduce inflationary pressures. The rationale was that given the import dependence of the country, depreciation of the currency would directly lead to domestic price appreciation. This implied maintaining relatively high interest rates, increasing the reserve requirement of banks to reduce lending, and taking an active position in central bank open market operations. Lending rates fluctuated from a low of 15% to a high of over 70%, reflecting Government efforts to curb the inflationary spiral and the depreciation in the exchange rate.

With the implementation from 1996/97 of a tighter macroeconomic policy, interest rates initially declined although remaining high in real terms. This induced a surge in capital inflows which led initially to a large appreciation of the Jamaican dollar in real terms by May 1997 compared with the average for 1993-95. This resulted in a sharp deterioration of the terms of trade affecting export earnings from agricultural products, garments and tourism.

The situation in the financial and foreign exchange market changed perceptibly in the early months of 1997. The growth of base money accelerated to almost twice the targeted inflation rate, and interest rates on six month T-Bills declined from 26% to 16% between December 1996 and March 1997. In

¹ Since 1978 there have been 12 IMF programmes, 5 World Bank Structural Adjustment Operations, and 3 World Bank Sector Adjustment Operations linked to loans totalling more than US\$ 1 billion.

² Following payment of salary increases backdated by 24 months.

³ *Report of the Committee Appointed by the Government of Jamaica to Examine the Role of the Bank of Jamaica*, January 1994. See especially the dissenting annex by Gladstone Bonnick. By law the BOJ can be required to increase money supply by up to about 20% of GDP through 'temporary advances' to government of up to 30% of estimated revenues (which are rarely repaid on time and are therefore a straight addition to high powered money), and through issuing securities to finance up to 40% of fiscal year estimated expenditures.

the following six months, the current account deficit substantially worsened. Despite attempts to restrain money growth, the money supply increased at rates above programmed levels, adding to inflation. More recent attempts to restrain money growth have resulted in a sharp rise in interest rates (with six-month T-bills reaching 30% in February 1998), which has contributed to a fall in inflation.⁴

Financial Crisis

Since liberalisation of the foreign exchange market in 1991, Jamaica has experienced an accelerated inflow of foreign capital, as high real interest rates have ensured a large inflow of speculative capital. Investment in brokerage houses, commercial banks, insurance companies and building societies soared, and financial services grew from less than 6% of GDP to about 15% of GDP. The regulatory authorities could not keep up with capital inflow. There were difficulties in supervision and enforcement as well as moral hazard problems of banks owning insurance houses. When the currency stabilised in 1995, interest rates fell and many investors cashed in their holdings. The resulting fall in property values led to a crisis in the insurance and banking sector and at the end of 1995, commercial banks were burdened with J\$ 6.8 billion in non-performing loans, representing 14% of their combined portfolio. During 1996, a number of banks collapsed or closed down.

This forced the Government to present a supplementary budget in January 1997 allocating about 5% of GDP to support the restructuring of problem institutions. It also established the Financial Sector Adjustment Company (FINSAC), to administer the funds drawn from the budget to coordinate and manage the restructuring of the sector. During 1997, FINSAC took major stakes in all but one domestic bank. In addition, the BOJ provided liquidity to banks equivalent to about 5% of GDP in face of deposit withdrawals from two financial institutions. By early 1998 the BOJ reported that an estimated 20% of bank loans were non-performing and all except two domestically owned commercial banks had faced either massive government intervention or major public recapitalisation. The costs of bailing out the insurance and banking system to date have been estimated as equivalent to 13-14% of GDP.⁵ The recent increase in interest rates is having a large impact on the performance of loans, and is raising the cost of FINSAC's activities significantly.

Fiscal Policy

The problems in the monetary sector have had a severe affect on fiscal management. After two years of surplus, the overall public sector recorded a deficit of 5.8% of GDP in FY 1996/97. For the first nine months of 1997, the deficit jumped to J\$ 31.2 billion, including amortisation, or 14% of GDP. Tax revenues on the other hand continue to perform poorly reflecting the general downturn of the economy. Recurrent expenditures stood at 59.2% of budgetary expenditure during FY 1995/96 and increased to 61.1% during FY 1996-97. The wage bill, which accounts for over 70% of non-interest expenditures, is a major strain on budgetary expenditure.

At the end of 1996, US\$ 5.45 billion, approximately 46% of the total budgetary allocation, was being used for debt-service payments. This reduced the amounts available for discretionary expenditure.⁶

⁴ Data available subsequent to the Mission show that inflation in the fiscal year 1997/98 was less than 9%, the lowest level in 10 years.

⁵ FINSAC's financing is provided through the issuance of debt guaranteed by the Government. If FINSAC is unable to service this debt, the consequences for future budgets could be severe.

⁶ Data available subsequent to the Mission show that the situation further deteriorated at the end of fiscal year 1997/98.

C. Social Indicators

Jamaica's living standard indices are favourable compared to other middle-income countries in the region. Life expectancy is over 70 years, infant mortality is 24 per 1,000 live births, severe malnutrition is rare and child immunisation almost universal. However, macroeconomic failure has contributed to acute social distress in Jamaica, with reductions in employment, and failing services. Jamaica, in common with most other Caribbean countries, has very skewed distributions of consumption and welfare.⁷

Education

The educational sector is reported to be suffering deteriorating quality and inequity in the provision of resources and education opportunities. Schools are under-resourced, educational materials are severely limited and reduced levels of maintenance expenditures have affected the physical environments of many schools. Furthermore, available resources are not distributed equitably. Schools serving students from low-income families areas are relatively poorly equipped, in poor physical condition, and suffer from overcrowding. Of the 15-19 age group, 13.5% are reported to be illiterate, rising to 17.3% for the 20-24 age group.

Health

The disease profile in Jamaica is increasingly life style related, resembling that of developed countries. Death is due less frequently due to infectious and vector borne disease than to chronic and degenerative diseases which are inherently more expensive to treat. Concern remains, however, about high and preventable peri-natal mortality rates. Injuries including homicides are the second leading cause of morbidity and rank as the main cause of death among males aged 15-44. The high level of crime, predominant in poor urban neighbourhoods illustrates this development.

Prolonged insufficient public funding for health care has caused a serious deterioration in the quality of care in public health facilities. One result has been a significant shift to private providers for outpatient care, even among poorer groups. Compared to private facilities, public facilities are in a poor state of repair and lack equipment and basic supplies.

Water and Sanitation

According to the Jamaica Survey of Living Conditions (1995), about 42% of the rural dwellings obtain drinking water from rain tanks, rivers, and lakes. By contrast, in the Kingston Metropolitan Area 97% of the dwellings have indoor tap or private tap/pipe outside. Most people have access to sanitation facilities. In rural areas schools, health centres and other public facilities are three times more likely to lack adequate sanitation, thereby increasing overall health risks.

Social Expenditures

Benefit incidence tables derived from the living standards surveys show a broadly progressive public expenditure profile for health and education, perhaps reflecting the use made by higher income groups of private services. The poorer quintiles benefit more than proportionately from basic education and health expenditures, although post basic service benefits are more skewed towards the higher quintiles. Access to sewerage and indoor water is however still very much biased to higher income groups.

⁷ See World Bank, Caribbean Countries Poverty Reduction and Human Resource Development in the Caribbean, 1996, Table 3, p 165.

Poverty Reduction Strategy

Poverty is a significant issue in both rural and urban areas, and a serious threat to the fabric of Jamaican society. A National Poverty Eradication Program, run from the Office of the Prime Minister, has been launched which seeks to mobilise all available resources in a streamlined and coordinated manner. It does not, however, add new national resources. It has few own resources and staff, and is essentially an attempt at programming sectoral expenditures which are intended to address critical poverty issues. One component of the programme is the Jamaica Social Investment Fund, to which the EC has contributed.

D. The Management of International Aid

Current levels of aid and lending to Jamaica are equivalent to around 4% of GDP. Table 2 shows the composition of aid. The EC is the biggest donor and provides more than 50% of all grants. Of the EU Member States, the Netherlands, Germany and the UK provide aid to Jamaica. The French support Jamaica through small loans channelled through its Caisse Française de Développement. Other EU Member States with a presence in the country are Italy and Spain. Non-European donors with a significant aid programme are the USA and Canada, who contributed 19% and 11% of all aid between 1993 and 1997. Lenders active in the country are the Inter-American Development Bank (IADB) and World Bank. More than 60% of the external funds received by Jamaica are loans.

	Avg Annual Disbursement 93-97 (US\$ mill)	Share of Total/Grant aid/Loans (%)
Grant aid	91	38
UN System	9	10
EC	48	53
United States	17	19
Canada	10	11
The Netherlands	3	3
Germany	2	2
UK	0.7	0.8
Others	0.5	0.6
Loans	148	62
IADB	106	72
IBRD	32	22
CDB	9	6
Others	0.2	0.1
Total	238	100

Source: UNDP.
Note: The data are not entirely reliable, and should be regarded only as a broad indicator of aid flows.

Coordination

UNDP organises annual retreats with all donors and lenders present in Jamaica. In addition, donors come together several times a year to discuss issues relevant to a particular sector. The EC Delegation is active in several such donor coordination groups. It leads the donor group on infrastructure, water and sewage, which corresponds to the priority activities within the EC aid programme. The meetings are used to discuss donor/lender support programmes and to review government performance in these sectors. The EC also participates in a coordination initiative on the environment.

CHAPTER II. EC AID TO JAMAICA

A. Size and Composition of EC Aid

EC financial assistance provided to Jamaica from the European Development Fund (EDF) covers a wide range of instruments: (i) project aid from the National Indicative Programme (NIP); (ii) programme aid from the Structural Adjustment and SYSMIN facilities; and (iii) risk capital and interest rates subsidies managed by the EIB. In addition the EIB provides loans from its own resources and additional grant funds are provided from the EC Budget. Jamaica also benefits from the regionally funded programmes. The instruments of EC financial assistance provided to Jamaica over time showed a clear trend towards less grant aid and more loans. From 6.5% under EDF 5, loans accounted for 45% of financial assistance to Jamaica under EDF 6 and 44% under EDF 7 or 61% if SYSMIN which is a non-programmable allocation, is excluded. However, under EDF 8 no loans have been programmed. Table 3 shows the breakdown.

	Lomé I/- EDF 4 ⁽⁴⁾	Lomé II/- EDF 5 ⁽⁴⁾	Lomé III/- EDF 6	Lomé IV/- EDF 7
National Indicative Programme (NIP)	20.0	26.4	40.2	49.7
Sysmin	0.0	25.0	0.0	70.0
Structural Adjustment Support ⁽²⁾	0.0	0.0	0.0	2.5
EC Budget Lines (outside EDF)	(0.0)	(0.0)	(0.0)	(13.3)
Risk Capital	0.07	5.0	2.3	5.0
Interest Rate subsidies	0.0	0.7	0.0	0.0
Total Grants ⁽³⁾	20.1	57.1	42.5	140.5
Loans From EIB Own Resources		4.0	34.3	105.0
All EC Financial Assistance	20.1	61.1	76.8	245.5

Source: Co-operation between the EU and Jamaica, Annual report 1995 and 1997

Notes:

(1) Regional cooperation excluded.

(2) Additional to this amount, under EDF 6 General and Sector Import Programmes (14.9 Mecu) were financed from the NIP. 4.6 Mecu from NIP EDF 7 were allocated to structural adjustment support under a General Import Programme.

(3) grants include heavily subsidised loans (long-term 0-2%) that are originating from EDF resources.

(4) Balances to EDF 4 and 5 were transferred to EDF 6 and 7 respectively at the end of 1990 and 1993, but are not included here in EDF 6 and 7.

Project Aid

The NIP, agreed upon by the Government and the EC, identifies the focal sectors for project assistance for each EDF (Table 4). At the end of 1997, 99.5% of all funds provided from EDF 7 were committed, while disbursements were more than 30% of the commitments. Commitments under EDF 8 await the ratification of the Convention by mid 1998.⁸

⁸ A financing decision for an amount of 10 Mecu with a suspensive clause was already taken in November 1997.

Project aid has been concentrated on water and sanitation, and roads. Water and sanitation projects accounted for 29% of all grant aid committed from EDF 7 (including balances from EDF 5 and SYSMIN) and roads for 56%. The General Import Programme (GIP) accounted for 10% of the initial NIP allocation under EDF 7.

Sectors Prioritised	NIP EDF 7		NIP EDF 8	
	Mecu	% of NIP	Mecu	% of NIP
1. Rural and Agricultural Development (FP1); Poverty Alleviation (FP2)	12.0	26%	38.0	63%
Sub-Sectors	water and sanitation, agriculture.		water and sanitation, agriculture, micro-projects, Social Investment Fund, SME credit.	
2. Infrastructure	22.0	48%	15.0	25%
Sub-Sectors	road infrastructure.		road infrastructure	
3. Action Outside Focal Objectives	7.4	16%	7.0	12.0%
Sub-Sectors	human resource development, TA and studies, cultural cooperation.		trade development, other areas (environment, good governance, drugs), TA for NAO and studies	
4. Structural adjustment, import programme.	4.6	10%	0.0	0%
Total	46.0 ⁽¹⁾	100.0%	60.0	100.0%
<p><i>Source: National Indicative Programme for Jamaica, Fourth Lomé Convention, First and Second Financial Protocol.</i></p> <p>Notes:</p> <p>(1) In 1995 an additional contribution of 3.7 Mecu was allocated to Jamaica to complement the funds allocated for the NIP under EDF 7. These were not foreseen when the NIP was programmed.</p> <p>(2) These funds are additional to the structural adjustment facility, which awarded Jamaica 2.5 Mecu from its EDF 7 funds, and to the EDF 6 allocation.</p>				

Structural Adjustment Support

Under EDF 7, Jamaica received 2.5 Mecu from the Structural Adjustment Facility, to which was added 1.3 Mecu transferred from EDF 4. A further 4.6 Mecu was allocated from the NIP for EDF 7, bringing the total under the General Import Programme (GIP) to 8.4 Mecu. The EDF 6 Sector Import Programme, totalling 13.6 Mecu, was financed from the NIP. The counterpart funds created by the import programmes were 'targeted' to social expenditures.

SYSMIN

The SYSMIN facility allows for compensation for losses in export earnings in the mining sector. As an important producer and exporter of bauxite and aluminium Jamaica has benefited on two occasions in recent years from this facility. The compensation received was allocated to economic diversification in both cases. Under EDF 5 a SYSMIN facility of 25 Mecu was awarded and invested in the construction of sewerage systems in Ocho Rios and Negril which are still under implementation. In 1997 the EC agreed to provide 80 Mecu for the construction of the Northern

Coastal Highway, of which 70 Mecu was provided from the SYSMIN facility for export losses incurred in 1993.

EC Budget Line Aid

Besides the assistance financed from the EDF, Jamaica benefits from certain budget lines. Aid financed directly from the EC budget is related to the following areas:

- Special system of assistance to traditional banana suppliers, technical assistance (TA) and income support (commitments: 2.0 Mecu in 1995, 3.0 Mecu in 1996 and 5.7 Mecu in 1997).
- Food aid (commitment: 0.8 Mecu in 1995)
- Democracy and human rights (commitment: 0.2 Mecu)
- Ecology in developing countries (commitments: 0.6 Mecu in 1995)
- Tropical forestry (commitment: 0.4 Mecu in 1997)
- NGO co-financing (commitment: 0.8 Mecu in 1996 and 1997)

EIB assistance

The EDF has financed risk capital (interest rate 0-2%) and interest rate subsidies managed by the EIB. In addition the EIB has provided loans from its own resources at rates of between 4% and 6.5%. The assistance targets the industrial sector through credit programmes, infrastructure, telecommunications and tourism:

- EDF 5
 - ◊ JBM alumina (loan: 4 Mecu).
 - ◊ National Development Bank (risk capital: 5 Mecu).
- EDF 6
 - ◊ Kingston Container Terminal (loan: 16 Mecu).
 - ◊ National Development Bank (2 loans: 13 Mecu, risk capital 1 Mecu).
 - ◊ Port of Montego Bay (loan: 5.25 Mecu).
 - ◊ Trafalgar Development Bank (risk capital: 1 Mecu).
 - ◊ Jamaica caustic soda plant (risk capital: 0.3 Mecu).
- EDF 7
 - ◊ National Development Bank (2 loans: 24 Mecu).
 - ◊ Trafalgar Development Bank (loan: 5 Mecu, risk capital 3 Mecu).
 - ◊ Jamaica Public Service Power (loan: 9 Mecu).
 - ◊ Montego Bay free Zone extension (loan 7 Mecu).
 - ◊ Jamaica Venture Fund (risk capital: 2 Mecu).
 - ◊ Telecommunications of Jamaica (loan: 40 Mecu).
 - ◊ King Container Terminal II (loan: 20 Mecu).

Aid and Trade

Although the EC's relations with Jamaica may be focused on the aid programme, the Lomé trade protocols and other preferences have also benefited the country considerably. Jamaica enjoys a privileged position as a traditional banana supplier to the EU and is one of the few ACP countries that has a guaranteed market for its sugar exports to Europe⁹. The guaranteed sugar price in the European market is almost double the world market price. For 1994 the resulting annual 'gain' was calculated

⁹ The sugar quota under Lomé is currently 129,017 tonnes duty free and an additional 24,000 with a limited duty of 81 ECU per tonne. The banana quota under Lomé IV is currently 105,000 tonnes duty free.

to be around 42 Mecu. Although a part of this is lost in the distribution chain in the EU, there remains a substantial benefit for Jamaica. The 'gain' from the banana protocol in 1994 was calculated to be around 12 Mecu.

EC Assistance to Jamaica From the Caribbean Regional Indicative Programme

Jamaica benefits from EC support channelled through the Caribbean Regional Indicative Programme (CRIP). The Delegation is responsible for four regional aid programmes managed in part or fully from Jamaica. Among these is assistance to the University of the West Indies (6.2 Mecu under EDF 6), a Caribbean University Level Programme (21 Mecu from EDF 7 for the whole region), CARIFORUM Cultural Centres, one of which will be in Jamaica (0.5 Mecu), and a Caribbean Hotel Training Programme, which was financed from EDF 6. Jamaica also benefits from the region-wide programmes managed from other Delegations or from the ACP Secretariat in trade, agriculture, drugs control, decentralised cooperation, and the tourism sector, and is involved in the Caribbean Examinations Council Programme.

B. Institutional Arrangements for EC Aid

National Authorising Office: the Planning Institute of Jamaica

The Government has appointed the Planning Institute of Jamaica (PIOJ) to represent it in all operations financed from the resources of the EDF and the EIB. The PIOJ is a department of the Ministry of Finance (MOF) and the Government department responsible for public investment financed from both domestic funds and external assistance. The Minister of Finance is the National Authorising Officer (NAO), and the PIOJ functions as his technical secretariat performing the functions of the 'National Authorising Office'. Within the PIOJ, one director deals with all multilateral assistance, including that from the World Bank and EC. She is supported by three staff who work on EC projects and programmes, two of whom have been recruited recently under an institutional strengthening programme funded from EDF 7. All staff are Jamaican.

In the programming of the NIP, the PIOJ relies on (parastatal) implementing agencies and line ministries for the identification of projects and programmes. The PIOJ undertakes a pre-selection of projects before they are presented to the Committee for Public Investment Programmes, and plays an important role in the appraisal and critical review of proposals made before they are submitted to the EC Delegation.

The PIOJ has regular contacts with the EC Delegation and between them a good working relationship has been established. The EC Delegation and PIOJ hold regular meetings to which representatives from the Ministry of Foreign Affairs and MOF are occasionally invited. The Ministry of Foreign Affairs is responsible on the Jamaican side for the trade relations with the EU and the preferential treatment provided by the Lomé Convention. The MOF plays an important role in the management of the counterpart funds related to the EC import programmes (22 Mecu from EDF 6 and 7 in total).

The EC Delegation in Jamaica

The EC Delegation in Jamaica is responsible for EC relations with Jamaica, Belize and the Bahamas. It has a Head of Delegation, an Economic Adviser, a Technical Adviser and an Administrative Officer. The post of Economic Adviser was vacant for six months during 1997 until it was filled in December, while the Technical Adviser post has been vacant since January 1988 year and is expected to be filled in the second half of 1998. The current Head of Delegation has been in post for over four years and will leave by the end of 1998. In addition to the permanent Delegation posts, the Jamaican Delegation has had a technical assistant for its water sector operations since 1991. There is also an ALAT working in the Delegation as rural development adviser and an Expert in Training who deals with several regional programmes and roads (in the absence of the Technical Adviser). In addition ten

local staff members are appointed for secretarial and administrative support and three drivers and a gardener.

Representative function of the EC Delegation

Increasingly the responsibility of the Delegation is to represent the EU in all spheres of EC competence. Before, the Delegation dealt exclusively with co-operation issues in the context of the Lomé Convention, which, although it includes trade issues, was focused primarily on financial assistance. Since Maastricht, the Delegation functions more like an embassy with the Head of Delegation responsible to DG I-A which manages the External Service of the EC. This change is reflected in the higher profile being given to the EC aid programme as a foreign policy instrument. The Delegation has received instructions to increase visibility and Delegation staff now spend more time on media coverage and participation in public fora than ever before. In 1997 the Delegate gave 37 public addresses, about half of which were related to trade matters.

The Delegation increasingly deals with trade as well as aid matters, due to the importance of the trade Protocols and preferences for Jamaica. However, it does not currently have sufficient resources to deal adequately with trade matters, and wider issues of assisting the Government with its programme for greater integration into the world economy and adapting to WTO rules.

Coordination With Member States

The EU Presidency organises monthly meetings with the Member States and the Delegation. These meetings deal mainly with the political aspects of co-operation, rather than with the aid aspects. However, at the end of every meeting the Head of Delegation informs the Member States of progress made and difficulties encountered. For the EDF 8 programming exercise, the Delegation organised extensive consultation with the Member States representatives. Three special meetings were held to discuss the draft and revised Strategy Papers before they were presented to Member States in the EDF Committee. Member States' representatives visited during our stay welcomed this consultation.

CHAPTER III. POLICY DIALOGUE

A. Development and Extent of Policy Dialogue

Policy dialogue is always difficult. In a complex democracy such as Jamaica, where the Government retains ownership of policies, the relation between donor and government can be more complicated. Jamaica has a history of popular activism as well as a state that has traditionally played a dominant role in the economy.

The overall economic policy dialogue, led by the BWI, has been associated with continued lack of sustained success in macroeconomic policy. The various stabilisation and adjustment programmes have failed to set the economy on a stable course (See Chapter II). The failures of monetary management and the crisis in the banking sector in particular have placed dangerous strains on the Government in the form of huge contingent liabilities and non-discretionary demands on the budget. Given the relatively limited role of foreign aid in Jamaica the involvement of other donors in policy dialogue with the Government has been limited in most cases to issues where these had a direct bearing on the programmes and projects they were financing.

Policy Dialogue Between the EC and the Government

For the EC, as largest provider of grant assistance to Jamaica¹⁰, the issue of the fungibility of aid financing means that broader issues of economic and sector policy are a significant concern since they have a major influence on the effectiveness of the aid programme. Consequently the EC has sought to conduct an increasingly active policy dialogue with the Government. At the level of general economic policy, this has been mainly concerned with relating the EC's aid programme to development priorities, with a more limited involvement in fiscal issues in the context of the structural adjustment support programme (SASP). Sectoral dialogue has taken place in key infrastructure sectors, in agriculture, and to a lesser extent in the social sectors.

In general, the scope and quality of the dialogue has been constrained by the small size of the SASP and the limited staffing of the Delegation. Much of the dialogue focused on the technical aspects of aid programming and the additionality of counterpart funds¹¹ particularly in the social sectors. This tended to obscure the broader policy issues. At the sector level, the EC has contributed more effectively to the development of policy in water supply, small-scale agriculture and bananas, areas in which it has had a long-standing involvement.

The remainder of this chapter considers the scope and effectiveness of the policy dialogue in three main areas: (i) the indicative programming of the EDF; (ii) structural adjustment; and (iii) sectoral policy.

¹⁰ Between 1993 and 1997, EC assistance accounted for 53% of all grant aid disbursements and 20% of total aid disbursements to Jamaica.

¹¹ There was a long debate with the Government over whether counterpart funds were additional to or part of the Government's general budgetary provision in the social sectors.

B. Indicative Programming

Key Features

The indicative programming exercise for EDF 8 focused around two main stages: (i) the preparation of a Strategy Paper which was an internal EC exercise involving consultation between the EC and the Member States; and (ii) the preparation of the NIP which was a joint exercise involving the EC and the Government. This involved a lengthy consultation process that was spread out over a period of two years (Box 1). The main innovations compared with previous EDFs was the requirement for Delegations to prepare a Strategy Paper, which replaced a less analytical pre-programming exercise. Instructions to the Delegation for the programming the NIP for Jamaica for the eighth EDF emphasised:

- concentration in priority sectors;
- the incorporation of EU Treaty objectives related to aid; and
- the need for coordination and consultation with member states representatives in the field.

Box 1: Programming of the Eighth EDF		
Stage	Timing	Responsibility
Preparation of the Strategy Paper		
◊ Start preparations for programming exercise in the Delegation	January 1995	EC Delegation
◊ First meeting with EU Member States	April 1995	EC Delegation and representatives of EU Member states
◊ Production of Strategy Paper by the Delegation	May 1995	EC Delegation
◊ Review of strategy paper	July –September 1995	Desk Officer DG VIII, Member States representatives and <i>Comité de Suivi</i>
◊ Revision of strategy paper and circulation among Member States representatives in Jamaica	October 1995	EC Delegation
◊ Finalisation of Strategy Paper	January 1996	EC Delegation
Preparation of the NIP		
◊ Informal preparatory meeting between the Delegation and the PIOJ: first discussion of strategy paper with GOJ	April 1996	EC Delegation and PIOJ
◊ Announcement of allocation of 60 Mecu for EDF 8	May 1996	EC
◊ Discussion of Strategy Paper in EDF Committee: agreement on draft NIP	June 1996	DG VIII and representatives of EU member states in EDF Committee
◊ Programming meeting between Delegation and PIOJ: presentation of draft NIP and discussion of list of projects	October 1996	EC Delegation and PIOJ
◊ Draft NIP sent to Headquarters	November 1996	EC Delegation
◊ Discussion of revised draft NIP	December 1996	<i>Comité de Suivi</i>
◊ Signature of the NIP	February 1997	PIOJ and representative of EC

The Strategy Paper for Jamaica provides an overview of the social and economic structure, constraints, potential and development perspectives and gives a description of current government policies and objectives, the input of foreign aid and the experience of EC assistance to Jamaica. In the subsequent sections two main areas for EC assistance are identified: poverty alleviation and infrastructure. In general terms the NIP reflects closely what was suggested in the Strategy Paper.

Dialogue With the Government

According to the PIOJ the NIP reflects well the priorities of the Government. The PIOJ was positive about the programming exercise, the success of which was attributed to the efforts of the Delegation staff to understand and support the Government's position. The process was regarded as having been consultative and 'not too traumatic'.

At a sector level there was considerable consensus between the PIOJ and the Delegation on the issues of poverty and social tension. However, there was some disagreement about the EC's decision not to include rural development as a focal sector. The EC preferred to get away from agricultural type projects because of difficulties that had been experienced in the relationship with the sector ministry and the implementing agency. In addition, the EC was sceptical about the potential for a large rural development project that was being proposed by the PIOJ had listed following proposals from various implementing agencies (Box 2).

Box 2: Proposed EC Assistance to Jamaica Under the Eighth EDF

Comparison of the NIPs for EDF 7 and EDF 8 shows the considerable continuity in the EC co-operation with Jamaica. The only major difference is the decision under EDF 8 to invest less in agricultural projects.

EDF 8 pays less attention to infrastructure (25% from NIP compared to 48% in the previous NIP) and almost three times as much to the poverty alleviation sector which compares to rural development and agriculture under EDF 7. However, this difference is largely offset by the large sum of money provided from the Sysmin facility for infrastructure (70 Mecu) and the fact that water & sanitation projects were included under infrastructure in EDF 7 and under poverty alleviation in EDF 8. Under EDF 7 several projects were implemented by RADA, the implementing agency of the Ministry of Agriculture, whereas for EDF 8 agricultural projects hardly feature. For EDF 8 allocations for micro-projects have been increased, partly as a result of relative success in projects under EDF 7 and partly as they are comparatively easy to manage as the Delegation has considerable discretion for the implementation of these projects.

The NIP for EDF 7 included several paragraphs on the intention of the GOJ to accelerate project implementation by improving procedures in accordance with the conclusions of a Project Implementation Review Seminar. The EDF 8 NIP contains a special section on coherence with other instruments and a chapter on entry into force, implementation and monitoring which covers the newly introduced concept of phased programming.

National and regional projects and programmes financed by the EC are coherent in that activities in non-focal sectors (human resource development and trade development) relate to areas of concentration for the regional programmes.

At Headquarters, the *Comité de Suivi* was responsible for verifying the coherence of the Strategy Paper and the draft NIP and for ensuring that all instructions and appropriate regulations were reflected. Most of their comments on the Strategy Paper referred to a further elaboration of certain areas. After the presentation of the draft NIP, the *Comité* only sought clarification concerning the differences between the Strategy Paper and the NIP. The Delegation perceived its dialogue with the Government to be very constructive.

Consultation With Member States

In the preparation of the Strategy Paper, Member States were formally consulted three times for their views, whereas in-country discussion during the preparation of the NIP was somewhat more limited. The latter primarily involved the Delegation and the PIOJ. The Member States also played an active role in the EDF Committee. Although representatives of the Member States indicated that they were well informed, some concerns were noted about the programming process and the realism of some implementation assumptions. When the Strategy Paper and NIP were discussed in the EDF Committee, some Member States focused on the need to give greater emphasis to the environment, gender, and the role of NGOs and the private sector.

C. Structural Adjustment

Role of the EC in the General Economic Policy Dialogue

The period under evaluation saw a rapid shift from economic 'success' under the IMF programme to a collapse of the banking sector and large liabilities being imposed on government finances. The EC has supported the stabilisation package negotiated between the BWI and the Government. Within this package the first tier of policy dialogue relating to macroeconomic reforms has been led by the IMF with no direct participation of the EC. In the second tier of structural adjustment reforms, led by the World Bank, the EC has participated through the provision of balance of payments support. Its particular concern has been to maintain a policy dialogue, consistent with the objectives of the Lomé Convention, aimed at addressing the social consequences of adjustment and the need to "protect" key social expenditures. As part of this dialogue, the Delegation maintained good relations and close contact with the local representations of the BWI.

The original EC financing allocation to support structural adjustment was made in June 1990, since when total assistance of 8.4 Mecu has been provided. The size of the allocation was thus relatively small and by itself insufficient to provide significant leverage in policy discussion (Box 3). Nevertheless, the relative importance of EC aid as a whole means that the EC has a direct concern in structural adjustment policies in the major sectors in which it is involved. Furthermore, the wider EC assistance is affected by issues about the fungibility of resources and the extent to which domestic financing may be switched to other sectors as a consequence of EC support to a sector programme, or more generally that the provision of aid may result in reduced revenue raising efforts.¹²

Box 3: Scope of EC Involvement in Structural Adjustment

The following communication from Headquarters in March 1991 indicates the relatively limited objectives of the EC's involvement in the general economic policy dialogue:

The rules governing the distribution of the EDF, and the method chosen to allocate the first tranche of structural adjustment resources, do not allow a weight of EC aid that is significant in terms of [Jamaica's] overall financing requirements. Also, at present the difficulties that have affected the disbursement of previous EDFs have also prevented a real policy dialogue in terms of sectoral reforms. This will make it difficult for the EC to exert much pressure on the Government, or on the BWI, as to the pace or content of the reform programme. Unless and until a sectoral policy reform dialogue develops, the most appropriate way to support the programme must be through an addition of foreign exchange to the general foreign exchange market....

In general, the EC has had a limited dialogue on economic policy reforms with the Government except in those areas where it has a strong sectoral or project involvement. On macroeconomic issues it has sought maintain an "information dialogue" through informal discussions with the Government and other donors. The need for the EC to be more actively engaged with the broader policy dialogue has been stressed in the recent Green Paper (p. 9) where the past failures in project aid are ascribed, *inter alia*, to a tendency in project aid 'to underestimate of the macroeconomic framework in ensuring a satisfactory impact'. In Jamaica, the macroeconomic framework has a major impact on sector and project issues, as well as on the population and poverty concerns targeted by EC projects.

¹² For an example near Jamaica, see Pack H and J R Pack, *Foreign Aid and the Question of Fungibility, The Review of Economics and Statistics*, 1993, pp 258-265. The authors show the presence of categorical fungibility in the Dominican Republic 'consistent with the most negative views on this question in the literature'.

Policy Dialogue on the Structural Adjustment Support Programme

The dialogue around the Structural Adjustment Support Programme (SASP) in Jamaica provides an example of the difficulties in this type of policy dialogue (Box 4). The operation of the SASP in Jamaica was similar to that in other countries. However, the difference is that the fiscal management in Jamaica (in contrast to monetary management) has been relatively conservative. This was also reflected in the use of the counterpart funds for budgetary support where the Financial Secretary took a fiscally conservative approach which resulted in some difficulties and misunderstandings in the policy dialogue with the EC.

Box 4: SASP and the Counterpart Funds Issue

In the allocation of counterpart funds a major concern of the EC was their additionality and whether budgeted allocations would be executed. However, there appears to have been limited analytical support behind this concern. The position of the EC, expressed in a July 1997 report on counterpart funds, was that *'the Ministry of Finance cannot simply promise the execution of such elementary steps as actually spending the funds'* since *'every year the Ministry of Finance systematically reduces the budget (in the social sectors) without notice'*. However, reference to the Public Expenditure Review and to the Financial Statements for 1996/97 and 1997/98 does not appear to support that view. Social sector spending appear to reflect the budget fairly accurately.

Initially, the Government sought to satisfy the concerns of the EC by providing the relevant budget and expenditure information. However the Delegation sought a stronger earmarking of the funds within the budget, noting in April 1995 that *'the fundamental principle of earmarking the counterpart funds to the social sectors is not well understood and line ministries have difficulties in absorbing important amounts of new resources'*. This led to the EC seeking the allocation of counterpart funds to programmes supported by organisations, such as PAHO/WHO and UNICEF, which could *'obtain mention of their activities in the national budget and ensure reporting and disbursement as and when foreseen'*.

The disagreement between the Government and the EC over how to budget counterpart funds was long. In the end a compromise appears to have been reached, with the MOF to some degree withdrawing from the dialogue as the PIOJ (NAO) took over the discussions, and the counterpart funds were projectised, including a donation to UNICEF. The 'earmarking' to the Social Investment Fund was non-additional and what was wanted by the MOF, whereas additional projects were placed into the capital budgets, as required by the EC.

Considerable delays were experienced in the implementation of the SASP. While the original financing allocations for a GIP was made in June 1990, the Financing Agreement was not signed until 1994, while the final release of counterpart funds did not occur until March 1998¹³. One consequence of this delay was that choice of a GIP facility as the means for disbursing the EC funds was no longer appropriate by the time the EC financing arrived since by then foreign exchange liberalisation had taken place.

During implementation of the SASP, the policy dialogue seems to have been limited and was mostly focused on issues relating to the use of counterpart funds

- General Economic Reform Issues. The SASP was linked to the reform process, but the EC recognised that its approach and analysis in this area was to be low key. Although "appropriate" macroeconomic policies were a condition of the SASP assistance, these do not appear to have been the subject of discussion with the Government, reflecting the EC's and Member States policy of supporting the IMF in macroeconomic reform negotiations.

¹³ The Memorandum of Understanding on the use of counterpart funds Financing was signed in June 1991, the financing proposal was completed in April 1992. There was a second Memorandum of Understanding in February 1995 and a rider (January 1996).

- Fiscal Management. Policy dialogue on issues of fiscal management appears to focused rather narrowly on the use of counterpart funds, rather than on the broader issues of financing of the social sectors as has occurred in SASPs elsewhere¹⁴. The main concern of the EC appears to be been the additionality of its counterpart funds. The 1991 Memorandum of Understanding noted that the EC's earmarked funds would finance expenditures that are not financed by other donors. However, the position of the MOF was that counterpart funds were to be considered to be in the budget, and therefore automatically included in the Government's revenue and expenditure calculations. Treating counterpart funds as incremental financing would have increased the budget deficit and been inflationary. The resulting discussion was protracted and a major cause of the considerable delay in releasing the counterpart funds (Box 4).

In the 1995 rider to the Financing Agreement, it was stipulated that the EC was to be involved in the Public Expenditure Review. However, this did not take place and the opportunity for the EC to contribute to the debate on broader public expenditure strategies was missed.

- Protection of Social Sector Programmes. A major objective of the SASP programme was to protect social sector spending at a time of fiscal stress. The EC counterpart funds were seen as the vehicle through which this concern was to be addressed. However, the SASP also reflected a wider concern to support the institutions managing social expenditure programmes in order that resources could be used more effectively. The lengthy debate over the use of the EC counterpart funds and their eventual allocation as project financing tended to obscure the budgeting and resource management issues in the sector. A further risk arose from "projectising" the use of counterpart funds is that this could encourage the establishment of parallel resource management systems undermining the role of the line ministries. To some extent this occurred in Jamaica (although the EC was not the instigator). There is now more awareness of this problem with the Social Investment Fund properly linked to sectoral ministry programmes. The EC has not directly assisted ministries in the planning and management of budgetary and service delivery reforms although this is an area in which such support might have been effective¹⁵.

Assessment

Since 1978, the BWI have provided more than US\$ 1 billion to Jamaica in adjustment lending. However the country has still not achieved stabilisation and questions over the approach adopted by the BWI in Jamaica (Box 5) raise the issue of the extent to which the EC should have sought a stronger involvement in the general economic policy dialogue and offered an alternative source of policy advice.¹⁶ However, this would have required greater professional resources than were available within the Delegation.

¹⁴ EC involvement in the Public Expenditure Review process is generally required as an EU condition in order to ensure that resource allocations to the social sectors are adequate and partly to influence wider fiscal choices.

¹⁵ For example the Public Expenditure Review noted that the Ministry of Education was institutionally weak and the sector under-financed.

¹⁶ This issue is a complex one which it would be difficult to address fully in this report.

Box 5: Stabilisation and Adjustment

Despite the adoption of successive packages economic reform measures, Jamaica has continued to be affected by macroeconomic policy failure:

- ◊ A 1989 World Bank report was highly critical of three structural adjustment operations implemented during 1981-86:
 - '...in several important ways the Jamaican economy – now burdened with a massive foreign debt – was in worst shape than it had been five years earlier, at the start of the first SAL ... The massive capital inflows of the early years, in the form of balance of payments support, would have delayed the adjustment, even if the Government had wanted to adjust faster. They led to the real appreciation of the exchange rate and to the maintenance of large and unsustainable fiscal and external current account deficits.'*¹⁷
- ◊ A more recent report concluded that that structural adjustment lending did not have a major positive impact because the external financing encouraged a delay in economic adjustment¹⁸.
- ◊ Fundamental economic and institutional issues were not addressed in BWI conditionalities. Thus, although the performance targets of the IMF were met in 1996 when the twelfth program ended, the BWI programme's overlooked:
 - linkages between the financial sector and the real sector of the economy
 - the policy of bailing out banks and insurance companies; internal indebtedness which would not have been so severe if the Government had maintained its former foreign/domestic debt structure;
 - institutional reform to ensure independence of the BOJ;
 - trade reform and the need for a programme for industrial competitiveness and productivity.

These problems reflect in many ways reflect the more fundamental inadequacies in coordination between stabilisation and adjustment measures which have characterised structural adjustment problems and which have been documented elsewhere¹⁹.

In conclusion, an important economic reform dialogue became characterised by lengthy delays in the release of funds and a long discussion on the use of counterpart funds. The SASP was a new instrument and difficult to implement. This contributed to the debate over whether the EC's counterpart funds should have been additional. Staffing constraints within the Delegation may also have contributed to the lack of a wider discussion on the broader fiscal planning and management issues. While the argument that project interventions were the best that could be achieved under the circumstances must be taken seriously, it may be the case that an opportunity to build up dialogue, linked to sectoral interests, has been missed since 1991 and throughout the critical period of the BWI programme.

D. Sectoral Policy Dialogue

The general view in the Delegation and in the Member States is that there is more scope for sectoral than macro dialogue. Infrastructure development has been a key objective at the sector level with roads and water being the main focal sectors. Support to these sectors has to a considerable extent been linked to the development of tourist industry. The roads programme has focused on improving infrastructure in the northern tourism areas. In the water sector, sewerage development have been supported in two areas heavily dependent on tourist development, and there has also been some investment in rural water supply development. The other area of sector policy focus has been rural development which, under EDF 8, has become more explicitly poverty alleviation.

¹⁷ World Bank, *Jamaica: Structural Adjustment Loans I and II*, Washington DC, 1989, pp xxx-xxxi.

¹⁸ *Jamaica: Achieving Macro-Stability and removing Constraints on Growth, Country Economic Memorandum*, May 1996, p 1.

¹⁹ More recently in the "External Evaluation of the ESAF", IMF, 1998. P. Collier, J. Gunning, et. al.

Some donors questioned the EC's emphasis on infrastructure aid and the linkage with development of the tourism industry. However, tourism plays a crucial role in the Jamaican economy and is a sector that is very dependent on an adequate infrastructure including roads and water and sanitation where the required investments are large. In a middle income country like Jamaica there is a good case for focusing project aid on such capital investment so that domestic financing can be more directly targeted towards social sector programmes where the requirement is primarily for sustained recurrent financing. However, the quid pro quo of such a strategy is that the poverty concerns of aid are addressed through an active fiscal dialogue that ensures adequate spending in the social sectors. The strategy set out in the Strategy Paper and NIP is consistent with this analysis.

The remainder of this section considers the policy dialogue in relation to EC support programmes in water and sanitation, and in bananas.

Water and Sanitation

The EC assistance in the water sector provides a good example of the difficulties that have been encountered in policy dialogue at the sector level. Only recently, following the publication of a paper on Social Water in 1994, has the Government started to address the issue of lack of policy and strategy for water and sanitation. One result of the absence of a water strategy has been the orientation of a policy in the sector towards exclusively engineering concerns to the neglect of issues water supply management, financial sustainability and social policy. There has also been a troubled history in the cooperation with the National Water Commission (NWC), which led to the World Bank and other donors withdrawing from support to the NWC in 1997.

The EC has been involved urban and rural water sanitation projects. Although the NWC prepared a paper on policy paper on water in 1994, there are still outstanding issues of access to water supply among the poor. Such issues should have been considered in the preparation of Rural Water Supply Project (Box 6).

Box 6: The Rural Water Supply Project

The Rural Water Supply Project (EDF 6), the implementation of which has been subject to significant delay, is currently being evaluated prior to its extension under EDF 8. The project primarily benefits small farmers living in geographical areas classified as among the poorest in Jamaica.

A conclusion from the evaluation is that the preparation of the project was exclusively concerned with engineering issues, and that no attention was paid to the requirements of the population and how they would react to improved water supplies. In the event, the population has utilised water for irrigation as well as domestic supply. This, together with the increase in population in the area has resulted in water demand far exceeding the levels anticipated in the project design, a problem exacerbated by the substantial delays in project implementation. The project also suffered from the lack of an agreed policy on providing metered standpipes in poorer communities which considerably reduced its poverty alleviation impact.

One consequence of the delays in project implementation has been to highlight problems of administrative procedures within both the Government and the EC. This has led to the participation of the EC in the Public Sector Modernisation Programme to support the reform of the government procurement system.

The Delegation has benefited from having a resident technical adviser on water and sanitation since 1991 who has played a key role in identifying policy issues to be raised with the NWC and GOJ in areas such a maintenance, tariffication and provisions of connections. The Delegation has also coordinated a work group with other donors involved in the sector, principally the World Bank, USA, Canada, and the UN organisations. These initiatives appear to have had some influence in assisting the Government to better define its policy in the sector. This is reflected in the change in emphasis in the NIP for EDF 8 away from direct infrastructure investment and towards (i) management and

maintenance of water facilities and waste disposal; and (ii) poverty alleviation through the better targeting of potential beneficiaries in the design of projects.

The EC has also provided TA to the NWC under an Institutional Strengthening Project²⁰. This aimed to reform the NWC into a “customer driven” and “business orientated” organisation through: (i) rebuilding the planning, planning and programming capacities of NWC; (ii) optimising commercial and technical operations; and (iii) improving performance and productivity of NWC staff. Initial progress in implementing the programme was hindered due to the removal of the NWC board and its senior management before the programme started. Thereafter, the project faced a less favourable environment within NWC which restricted the introduction of the planned reforms. As a result the project achieved less tangible results than had been expected although some progress was made in introducing new procedures in the areas of management information, water resources management, operations and maintenance, financing and budget preparation, and project preparation.

In general, therefore, although the policy dialogue in the water sector has been relatively low-key and protracted, it has resulted in a gradual pressure with Government to resolve the outstanding problems and issues in the sector.

Bananas

Banana farming in Jamaica is not as central to the export economy as it is to the Windward Island banana economies, but it is nevertheless an important source of income for a segment of the population. Currently, there are three large estates and about 500 small growers. In 1993, there were 1,500 growers.

The Banana Support Programme (BSP), which is financed out of a Budget Line is a good example of small-scale intervention which has had a positive policy impact. The programme has benefited trade and the private sector, and has successfully targeted small farmers. It has assisted with the virtual elimination of Black Sigatoka disease which would otherwise have probably wiped out much of Jamaica’s banana production. It has also supported a successful credit scheme, although its impact has been reduced by the high real interest rates which have been a consequence of the Government’s macroeconomic policies. There are strong links between the activities of the BSP and the EC’s support for the water sector, since irrigation has an crucial role in upgrading of banana quality, but is affected by the extensive restrictions and bureaucracy, and environmental concerns.

The policy dialogue on bananas has been conducted between the EC and the Banana Export Company (BECO), which is a private company owned by the banana exporters. This is probably one reason for its relative success since the involvement is directly with farmers. In the key policy areas relating to the negotiations with the WTO and the transitional problems faced by the sector, successful policy dialogue appears to have been more difficult.

One aspect of this type of programme, which is common with other agriculture programmes which are very dependent on the timeliness of inputs, is the inability of EC administrative systems to be responsive. Thus, the success of the BSP has depended on the ability of TA, recipient institutions and the Delegation itself to overcome administrative hurdles set up by EC’s systems and procedures.

²⁰ The TA was provided through a twinning arrangement with Thames Water International.



CHAPTER IV. AID IMPLEMENTATION AND MANAGEMENT

A. Introduction

Effective policy dialogue and efficient programme implementation require strong aid management procedures. This chapter considers how the EC manages the implementation its aid programme in Jamaica. Specifically it addresses: (i) the role and functioning of the NAO's office; (ii) project identification, planning and appraisal; (iii) the implementation of aid programmes and projects.

B. Role and Functioning of the NAO's Office

A strength of the institutional arrangements for the management of EC aid in Jamaica is that the NAO's Office is fully integrated into the PIOJ which itself is a department of the MOF. The PIOJ's mandate is to take investment projects to the implementation stage.

However, the management of the EC programme extends the role of the PIOJ into overseeing project implementation and financial management which is beyond the scope of its normal functions. This has resulted in a heavy administrative workload which has necessitated the employment, under EC financing, of two additional members of staff in order to improve the timeliness of NAO actions. It has also led to the perception that the role of the PIOJ has become too pervasive and centralised. Several government departments visited by the team felt the system to be too complex in that it embraced both technical issues as well as programme management and administration functions. Thus, a department in the MOF was critical of the decision to channel technical discussions on the SASP through PIOJ and considered that this had significantly reduced the quality of the policy dialogue. One Member State representative also voiced similar criticisms of the NAO system.

C. Programme and Project Identification Planning and Appraisal

In the programming of the NIP, the PIOJ relies on parastatal implementing agencies and Ministries for the identification of projects and programmes. The PIOJ then undertakes a pre-selection of projects before they are presented to the Committee for Public Investment Programmes, and subsequently plays an important role in the appraisal of proposals before they are submitted to the Delegation. One criticism of this procedure is that in some cases it results in the programming process being too influenced by the history of previous EC aid interventions. Also, in the past there was insufficient interaction in programming activities between the PIOJ and private sector and civil society organisations. In the 8th EDF NIP, however, dialogue with the private sector was an important factor in the expansion of the trade development programme.

The EC Delegation and PIOJ rely heavily on consultants in the design of projects and programmes. This involves some risks, particularly where consultants do not have sufficient insight on political and implementation constraints affecting the acceptability of the programme or the management of it. Thus, the evaluation of the Target Europe Programme identified a range of factors where the impact of the programme had been negatively affected by inappropriate assumptions the programme design²¹. In the water and sanitation sector, design errors have resulted in serious implementation

²¹ TDI, Target Europe Programme, Mid-term review, Final Report, January 1997, p. 5.

delays and in some cases faults in completed systems. In the case of one sewerage project, which is now being evaluated, the long-run sustainability of the investment was not taken adequately into account in project design. According to the former project manager, neither the Government nor the EC had available the professional resources needed to review the design proposals adequately. As a result, in the contract documents there were some design omissions and ambiguities affecting costs.

D. Programme and Project Implementation

Around 30% of NIP allocations for EDF 7 had been disbursed at the end of 1997. This disbursement rate compares relatively favourably with that for some other ACP countries.

Chain of Decision Making

Implementation of projects is often delayed because of the lengthy approval process within Government. The number of levels (which may include the NAO, ministries, implementing agencies and Cabinet) involved in approving projects, tender evaluations and payment processing, lengthens the time needed to reach decisions. Delays on the EC side compound the problem. The Post-Fiji study undertaken by Price Waterhouse noted this issue in 1992. The World Bank also raised it with reference to Government disbursement practices when it reviewed strategies for disbursements of Bank-financed projects in 1995.

The Government has maintained a fairly centralised way of dealing with payments on donor funded projects. Ministries and implementing agencies do not have direct access to donor funds, through mechanisms such as special accounts. Instead all payments have been made directly from the Consolidated Fund to which reimbursement is then made by the donor organisation.²²

Coordination Between Different Aid Instruments

In Jamaica, the EC has generally targeted the assistance available under different aid instruments towards a limited number of sectors and objectives resulting in a relatively well coordinated aid programme. However, some problems of coordination do exist, particularly between national and regional programmes. For example in trade development, Jamaica has a Target Europe programme aimed at stimulating product and trade development. In addition there is a CEDA office in Jamaica as well as a CDI antenna. Despite the fact that all are included in JAMPRO, the Jamaican investment promotion agency, there does not appear to be much coordination among these initiatives. The evaluators of the Target Europe Programme state that they 'saw no evidence of any coordination of approach between the programme and its regional component, indeed the regional technical adviser was not even aware of the latter'.²³

Tendering and Procurement

In Jamaica, the tendering process is directed by the Central Tender Board. For major contracts the procedures are lengthy and involve consideration by several committees and frequently Cabinet approval. The threshold for tender approval on smaller contracts involving the Government Contracts Committee has been eroded by inflation with the result that an increasing proportion of contracts are having to be referred for decision at a higher level.

The additional requirements of the EC's tendering procedures result in further delays and do not always give sufficient regard to the advice and judgement of the Government and the Delegation. An example is the tendering for the Road Rehabilitation Project (RRISP). The Government and the

²² This procedure is now subject to change, and a number of project management units can have access to special project accounts.

²³ TDI, p. 23

Delegation argued that this project should be undertaken under a 'direct labour' contract which would allow the Government to split up the project into various smaller components and recruit local contractors for each of them. This was, however, unacceptable to Headquarters, which argued for an open international tender. The Delegation replied that there would be no interest from international companies because of the nature of the work. It therefore suggested a restricted tender under an accelerated procedure open only to local companies and to split up the contract which because it would have otherwise been too big for most local companies. The Delegation was overruled and an open international tender in one lot took place. As predicted, no international company tendered and only 4 local consortia of companies responded to the tender. The overruling of an informed decision from the field led to considerable criticism within the Government and resulted in a delay of 4 years.

Financial Accountability.

The financial accountability insisted on in the EC system, both by Headquarters and Member States, is extremely detailed and the procedures involved absorb an enormous amount of attention from Delegations in the field. The Bureau of Heads of Delegations recently commented on this issue that 'the lack of deconcentration is an aberration compared with the degree of responsibility of Heads of Delegations in aid management'.²⁴

In practice, the responsibilities of Delegations combined with EC procedures for the implementation of its aid result in a heavy administrative task for professional staff in Delegations. Previous evaluations looking at aid to Jamaica have also commented on the extreme workloads and the purely administrative nature of the work of Delegation advisers.²⁵ Within Headquarters decision making is also highly centralised and most decisions are made at a high level in the EC. According to the EC 70% of the decisions are taken at the Commissioner, Director General and Deputy Director General while Heads of Delegation take the rest.²⁶

Administrative Burden.

Due to the administration burden on advisers, policy matters are often left aside because of time constraints, and there is a question of whether staffing in the Delegation are optimally deployed. The EC Delegation has also been impeded by long vacancies of advisers' posts combined with a complex set of issues (aid, trade, structural reform) to be dealt with by a small number of officials. Policy dialogue, representative functions and day-to-day management of EC aid to Jamaica create a workload which in the current structure is difficult to manage.

²⁴ Report of meetings of bureau of heads of Delegation with Brussels services, 9 September 1997.

²⁵ International Multi-disciplinary Consultancy, *Evaluation of preparation and implementation of projects and Programmes financed under Lomé I, II, III in Jamaica*, 1991, pp v, C-6

²⁶ Acting Director General, 1997, *Instructions to DG VIII staff at headquarters and in the Delegations in the ACP states, Subject: Reforming the procedures for financing decisions under the global commitment authorisations and for managing TA*

Relations with Headquarters.

Both the Delegation and the NAO Office reported some difficulties in dealing with Headquarters staff due to the high turnover of Desk Officers for Jamaica with four in the last five years. The usefulness of support from the Desk Officer depends on the individual, but is heavily influenced by the time spent as a desk officer and by previous experience of working in a Delegation. In some areas, such as transport infrastructure and poverty, the Delegation gets additional support from experts in the policy divisions of DG VIII.

Annex

List of People Interviewed

Delegation

Mr J Moran – Head of Delegation
Mr F Carrerras – Economic Adviser
Mr T L Jackson – EIT, Technical Attaché
Mr R J Schierhorst – ALAT, Rural Development Adviser

Member States

H.E. Fernando de la Serna, Ambassador for Spain
Mr S Maspoch – First Secretary, Spanish Embassy
Mr van der Lugt – First Secretary, Netherlands Embassy
Dr von Menchow-Pohl, First Secretary, German Embassy
Mr J D Martin – French Trade Commissioner
Mr J Malcolm – Deputy British High Commissioner
Ms W Freeman – Second Secretary, British High Commission

World Bank

Ms S Adams – Acting Resident Representative
Mr E Graham - Economist

PAHO

Dr R Van West Charles

Government of Jamaica

Mr R G Brooks - Deputy Secretary Finance
Mrs I Ormsby - MOF
Ms L Palmer - Director, PIOJ
Ms L Francis - PIOJ
Ms H Gillings - PIOJ
Ms G Davies – PIOJ

National Water Commission

Mr R Cranston – President
Mr P Collins – Technical Assistant funded by the EC

Banana Export Company

Mr S Coppieters – Technical Assistant funded by the EC

Other Public Sector Agencies

Ms S Gillings - Managing Director Jamaica Social Investment Fund
Mr Salmon - Poverty Eradication programme

The author accepts sole responsibility for this report, drawn up on behalf of the Working Group of Heads of Evaluation Services (Development) of European Union and the Commission. The report does not necessarily reflect the views of the Working Group or the Commission, which funded this report.

