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Report No: 23336

IMPLEMENTATION COMPLETION REPORT
(FSLT-70360)

ON A

LOAN

IN THE AMOUNT OF US$75 MILLION

TO

JAMAICA

FOR A

Bank Restructuring & Debt Management Program Adjustment Loan

12/21/2001

CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2001)

Currency Unit = Jamaican Dollar
US$ 1.00 = 45.79 Jamaican Dollars

FISCAL YEAR
April 1-March 31

ABBREVIATIONS AND ACRONYMS

BOJ	Bank of Jamaica (Jamaica's Central Bank)
BRDP	Bank Restructuring and Debt Management Program
CAN	Country Assistance Note
CAS	Country Assistance Strategy
FINSAC	Financial Sector Adjustment Company Limited
FIS	Financial Institutions Services
FSC	Financial Services Commission
FY	Fiscal Year
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFI	International Finance Institution
IMF	International Monetary Fund
LOJ	Life of Jamaica
LRS	Locally Registered Stock (Treasury bonds)
MOF	Ministry of Finance & Planning
MOU	Memorandum of Understanding
NCB	National Commercial Bank
NPLs	Non Performing Loans
RBTT	Royal Bank of Trinidad & Tobago
SMP	Staff Monitored Program

Vice President:	David de Ferranti
Country Manager/Director:	Orsalia Kalantzopoulos
Sector Manager/Director:	Fernando Montes-Negret
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JAMAICA
Bank Restructuring & Debt Management

CONTENTS

Project ID: P071112	*Project Name:* Bank Restructuring & Debt Management
Team Leader: Yira J. Mascaro	*TL Unit:* LCSFF
ICR Type: Core ICR	*Report Date: December 27, 2001*

1. Project Data

Name:	Bank Restructuring & Debt Management	*L/C/TF Number:*	FSLT-70360
Country/Department:	JAMAICA	*Region:*	Latin America and Caribbean Region
Sector/subsector:	FF - Financial Adjustment		

KEY DATES

			Original	*Revised/Actual*
PCD: 07/05/2000		*Effective:*	12/19/2000	12/19/2000
Appraisal: 09/06/2000		*MTR:*		
Approval: 11/30/2000		*Closing:*	06/30/2001	06/30/2001

Borrower/Implementing Agency: JAMAICA/MINISTRY OF FINANCE AND BANK OF JAMAICA
Other Partners:

STAFF	Current	At Appraisal
Vice President:	David de Ferranti	David de Ferranti
Country Manager:	Orsalia Kalantzopoulos	Orsalia Kalantzopoulos
Sector Manager:	Fernando Montes-Negret	Fernando Montes-Negret
Team Leader at ICR:	Yira Mascaró	Subrahmanya Pulle Srinivas
ICR Primary Author:	Yira Mascaró	

2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S

Sustainability: L

Institutional Development Impact: SU

Bank Performance: HS

Borrower Performance: S

	QAG (if available)	ICR
Quality at Entry:	S	S
Project at Risk at Any Time:	No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:
The purpose of this loan was to assist the Jamaican Government to implement its Bank Restructuring and Debt Management program (BRDP), aimed at completing the resolution of the financial crisis that started in the mid-1990s and putting the large public sector debt on a declining and thus, sustainable path.

Context: Since the mid-1990s, Jamaica faced a systemic financial crisis with solvency and liquidity problems in virtually the entire domestically owned banking and insurance sectors. As described in the President's Report of the loan (Report No. P7397 JM), the weaknesses leading to the crisis are linked to an inadequate prudential and regulatory infrastructure coupled with poor enforcement, which enabled risky investment and lending operations by a large number and variety of new financial institutions. In particular, insurance companies raised funds through deposit-like instruments disguised as insurance premium, investing in real estate, stocks, and securities. As the Government's macroeconomic policy led to high interest rates and the prevailing real-estate bubble burst, insurance companies faced liquidity problems and tapped mostly their related banks for funds. This transmitted problems to banks, triggering the crisis. Facing systemic insolvency, the Government placed a universal guarantee on deposits, provided liquidity to weak banks through extensive overdraft facilities from the central bank (Bank of Jamaica, or BOJ), and established a failure resolution agency –The Financial Sector Adjustment Company (FINSAC)— to intervene, rehabilitate, and divest troubled financial institutions. The Government also started a process of strengthening the regulatory and supervisory framework, aimed at reducing the vulnerability of the financial system to future crises.

Although the Government contained the crisis, the stabilization of the financial sector came at a substantial cost. Being cash constrained, FINSAC issued non-tradable, Government guaranteed bonds on which interest was capitalized, to replace the bad assets it took over from more than 20 intervened institutions. The ensuing rapid growth of FINSAC debt worsened as interest rates continued to rise, leading to a stock of debt of J$143 billion as of March 2001 (about 44 percent of GDP). This added to an already large pre-crisis public debt burden of more than 100 percent of GDP, leading to an unsustainable debt path.

The Government recognized the urgent need to resolve the crisis and contain the adverse debt dynamics in order to restart economic growth –with GDP stagnant or declining throughout most of the last decade, and thus help in reducing poverty. Although costly and difficult to achieve, cash interest payments on FINSAC bonds became a central component of the Government's strategy to complete the resolution of the crisis. By restoring liquidity to the financial system and enabling the disposal of the Government's stakes in a large share of the system, a financial, as opposed to an accounting, resolution of the crisis was attempted. The Government approached the Bank, the Inter-American Development Bank (IDB), and the Caribbean Development Bank (CDB), for funds that would support this strategy. With the support of these International Financial Institutions (IFI's) loans to retire a portion of FINSAC's debt, the Government expected to improve the profile of its debt, by replacing high-cost short-term domestic debt with cheaper, longer-maturity, international (dollar-denominated) debt. The Government provided the macroeconomic underpinning for these efforts through a Staff Monitored Program (SMP) with the IMF that went into effect in April 2000 (IMF Document No. EBS/00/152) for a two-year period. In the SMP, the Government committed itself to tight fiscal policies to generate large primary surpluses of 11-13 percent of GDP for the next 5 years that would enable it to service its debt.

The broad medium-term goals of the Government's BRDP are: (a) FINSAC to resolve the three financial institutions in which it had majority equity stakes; (b) FINSAC to dispose of the entire portfolio of non-performing loans (NPLs) and other assets acquired in its intervention and rehabilitation stage; (c) Government to take over all outstanding FINSAC obligations and service them in cash; and (d) Government to strengthen the legal, regulatory, and supervisory framework for both banks and non-bank financial institutions. It was anticipated in the BRDP that these objectives would be achieved in a phased manner.

Objectives of the first phase of the BRDP: The BRDP loan supported the following specific actions taken by the Government prior to Board presentation: (i) FINSAC sold Union Bank (UB) and made significant progress in restructuring the other two remaining intervened institutions –National Commercial Bank (NCB) and Life of Jamaica (LOJ), the largest domestic commercial bank and the largest insurance company, respectively; (ii) FINSAC developed a strategy for disposing of its portfolio of NPLs and disposed of a significant fraction of its portfolio of other assets; (iii) the Government committed to restructure FINSAC debt and service all remaining FINSAC obligations in cash beginning April 1, 2001; and (iv) it made substantial progress in strengthening the legal, regulatory, and supervisory framework for both banks and non-bank institutions.

***Assessment*:** The BRDP loan was timely and appropriately designed with clear objectives fit for a single tranche operation, with up-front actions and disbursement in full upon effectiveness. The objectives were fully consistent with the Government's policy agenda, as outlined in the budget presentation to Parliament in March 2000 and laid out in the widely disseminated SMP. In addition, the BRDP loan was the central component of the Country Assistance Strategy (CAS), and the Bank's Executive Directors discussed both together on November 30, 2000. The objectives of the loan were therefore fully aligned with those of the CAS. The Government's program was also supported by an IDB two-tranche loan for US$150 million approved on September 2000 with the first tranche disbursed shortly thereafter, and by a CDB US$25 million loan also approved in September 2000.

3.2 Revised Objective:
Loan objectives remained unchanged.

3.3 Original Components:
This BRDP loan was designed as the first of a series of single-tranche adjustment operations under a programmatic approach supporting the first phase of the Government's program. The components included specific actions and commitments in the following areas:

Resolution of financial institutions: A key component of the Government's overall program is the sale/resolution of the three major intervened institutions. The main sale transaction supported by the loan was that of UB –far advanced during the preparation of the loan, which required a signed sale contract for UB prior to Board presentation. Although the sale of NCB and LOJ was recognized as being crucial, it was envisaged that these would take much longer to materialize due to the prior time-bound legal steps necessary to enable FINSAC to sell both institutions, and the large size of NCB (about 35 percent of financial system assets). Therefore, the loan supported critical initial steps necessary in order to achieve the ultimate objective of sale. These included FINSAC's rehabilitation of NCB and LOJ, and the advance in taking legal steps leading to the acquisition of a majority equity stake in these institutions (see annex 8). FINSAC agreed to install sound management in the two institutions and design a plan, acceptable to the Bank, to address liquidity needs until their resolution was finalized.

Restructuring of the public debt linked to the financial crisis: The Government was to write-off/offset FINSAC paper held by the public sector, mostly the Ministry of Finance (MOF) and restructure FINSAC's liabilities with third parties (UB, NCB, LOJ, and others, mostly already resolved insurance companies). Further to these efforts, the Government committed to convert all outstanding debt into negotiable Government bonds (Local Registered Stock or LRS) and committed to service this debt in cash effective April 1, 2001.

Asset Disposal- Portfolio of Non-performing Loans: FINSAC had established a workout unit to manage the NPL portfolio of J$74 billion (face value of J$33 billion along with accrued interest) it had acquired from intervened financial institutions, and attempted recovery. The loan supported continuing progress in the disposal of NPLs through the diagnosis of the portfolio and the adoption of a strategy for its full disposal.

Asset Disposal- Portfolio of Other Assets: Since a large part of intervened bank portfolios was concentrated in real estate – either as assets financed through loans or as collateral, FINSAC also became the owner of numerous real estate assets (such as hotels, commercial and residential real estate, furniture & equipment, artwork, and motor vehicles) and other non-core assets. The loan supported FINSAC's efforts in continuing the disposal of these assets, under a plan acceptable to the Bank.

Strengthening of Regulation and Supervision of the Financial Sector: The loan supported the Government's continuing efforts to strengthen the regulatory, legal, and supervisory framework of the financial sector by: (i) enhancing the BOJ's intervention powers; (ii) amending bank secrecy laws to permit exchange of information between regulatory agencies; (iii) promoting the issuance of a Ladder of Enforcement to BOJ's supervised institutions; (iv) establishing the Financial Services Commission (FSC) to supervise the non-banking sector in a integrated fashion; (v) obtaining Cabinet approval for a new Insurance Bill for presentation to Parliament; and (vi) creating a Regulatory Policy Committee to coordinate regulation and supervision between the BOJ and the FSC.

The BOJ also agreed to undertake an independent assessment of the Basle Core Principles by the second quarter of 2001.

Commitment to manage Jamaica's public debt: In its Letter of Sector Development Policy, the Government reaffirmed its commitment to manage its public debt in the short-, and medium-term and meet the structural benchmarks outlined in the SMP.

***Assessment*:** The design of the first phase of the BRDP loan was sound with respect to, (i) the specific transactions needed; (ii) the relevant steps required to further strengthen the institutional framework and thereby reduce the vulnerability of the system to future crises; (iii) the emphasis on providing liquidity to banks, after undertaking major restructuring/sale to restore sound private sector lending that could lead to increased economic growth; (iv) the support to sustained efforts to recover/sell the portfolios of NPLs and other assets to complete the resolution of the crisis, and (v), the focus on attempting to reverse the adverse debt dynamics that had curtailed the Government ability to handle the crisis and restore growth.

3.4 Revised Components:
The loan components remained unchanged.

3.5 Quality at Entry:
Quality at entry was Satisfactory based on: (i) consistency of objectives with both the Government's medium-term goals and the Bank's CAS; (ii) incorporation of lessons learned from previous experience in Jamaica: the timing of the operation ensured strong Government's ownership and commitment to the adjustment program; (iii) design as a single tranche loan with up-front actions for effectiveness: this design took into account several risks involved, while providing flexibility within a programmatic approach to address changing circumstances in future operations; and (iv) rapid assessment of the high rewards of the operation despite the risks: the program recognized that the cost of not supporting the Government was high, both regarding the Government's ability to attain its program and in terms of the Bank's role in helping Jamaica achieve its program goals.

Quality Assurance Group (QAG): A QAG assessment carried out in August 2001 rated the quality at entry of this operation, as well as the eight quality dimensions to be Satisfactory and the Bank Input and Processes to be Highly Satisfactory. The panel viewed the program as likely to meet its development objectives, despite the considerable risks involved. However, it expressed some concerns on the sustainability of the operation as the financing made available was limited relative to the large need of funds, which would constrain the country's ability to maneuver in the event of further domestic or external shocks. Still, the panel agreed that on balance, not providing any support would probably have been worse. The QAG report classified the operation as high-risk/high reward, commending several aspects of the loan including: (a) the large degree of collaboration with the IMF at the operational level in designing the macroeconomic elements of the program and with the IDB on sector aspects; (b) adequate timing, by providing support after a hiatus of three years in Bank lending, once Government's ownership of the reform was demonstrably high; (c) extensive assessment of underlying risks and thus, adequate choice of lending mechanism through a series of single-tranche loans under a programmatic approach, particularly given the Bank's past experience in the country; (d) active involvement of Regional and Sector Directors and the Chief Economist, besides what they assessed as a highly skilled task manager and team reflected in the quality of this complex operation; and (e) promptness in the processing of the loan and excellent use of resources once the decision was made to proceed with the operation.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:
Overall, the implementation experience of this first BRDP loan has been Satisfactory. The loan supported actions taken prior to Board presentation, achieving its objective of enabling the implementation of the first phase of the Government's program. The Government reached concrete goals in all the major areas specified in the loan with actions that are hard to reverse –including the sale of UB and LOJ, the passing of new legislation and the strengthening/establishment of new financial regulatory entities. However, it is still early to fully assess the success

of the reforms in meeting its longer-term objectives, such as enhancing the system's capacity to prevent or withstand future crisis, restarting lending and hence contributing to restoring growth, or to judge the sustainability of these reforms. Nevertheless, as articulated in the Government's medium-term BRDP, the completed actions supported by the loan cover a large portion of the process of resolving the financial sector crisis (see section 4.2). However, three specific areas faced unexpected difficulties (see sections 4.2 and 5.2), of which the delay in the sale of UB, has been resolved. The second area is the restructuring of the FINSAC paper at the BOJ, which still remains to be completed as per the Cabinet resolution issued in this regard. The third, relating to the evolution of the public debt remains the major risk faced by the Government's BRDP and the Bank's programmatic series of loans in support of the program. In addition, although the Government had made a strong start in implementing the SMP, which IMF staff determined to be "broadly on track in 2000/01," these assessments were made before the events of September 11th in the US. Since then, the Government approached the Bank for emergency lending to address the major shock to its macroeconomic plan from these events (see Report No. P7493-JM) and the IMF to prepare a revised SMP accordingly.

4.2 Outputs by components:

Following the structure of the BRDP loan as a single-tranche adjustment lending operation, the actions were completed prior to Board presentation. As a condition of effectiveness, the Borrower was required to take the key actions described in section 3.3. Evidence of the Borrower's compliance with all of the loan conditions is provided in Annex 8 of this report. The outputs by components are:

Resolution of financial institutions:

Union Bank- FINSAC sold its 99 percent share in the equity of UB to RBTT Financial Holdings Limited.

National Commercial Bank-At the time of preparation of the loan, FINSAC owned 67 percent of the equity of NCB, short of the over 75 percent share needed to give FINSAC controlling ownership to advance in the process of selling the bank. Prior to the Board presentation of the loan, FINSAC increased its stake in NCB to more than 75 percent obtaining control of the bank, going beyond required actions stipulated in the loan (see Annex 8). FINSAC also filled all senior management positions and designed strategies to address NCB's liquidity needs and to manage the bank during the time it is under FINSAC's control. The Government has repeatedly stated that it has no intention of having the responsibility of managing a commercial bank beyond the minimum time necessary to dispose of FINSAC's equity in NCB, reflecting its commitment to dispose of this large bank as soon as possible. Accordingly, the Government recently submitted to Cabinet an offer by an international investor to buy FINSAC's 75 percent stake in NCB, following FINSAC's technical recommendation. The recent restructuring of the bank and the Government's commitment to provide liquidity through cash payments on LRS replacing FINSAC bonds have been crucial in this process. If approved, the sale is expected to be finalized by March, 2002. This would be a key step towards the final resolution of the crisis.

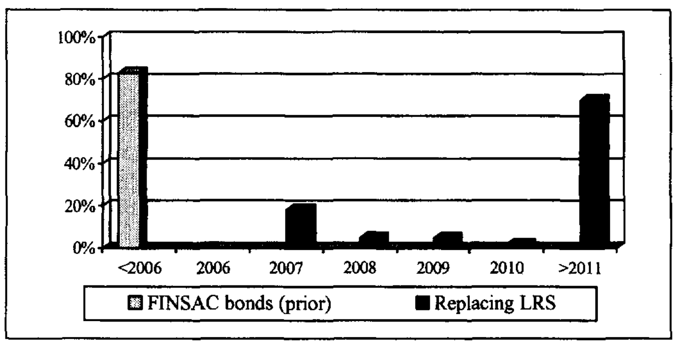
Life of Jamaica- Prior to presentation of the loan to the Board, the board of directors of LOJ had agreed to call a shareholders' meeting to authorize a proposal by which FINSAC was to obtain more than 75 percent of the equity of LOJ. FINSAC acquired this majority ownership in November 2000, prior to Board presentation. In addition, during the first quarter of 2001, the Government redeemed J$1 billion of FINSAC bonds at LOJ to address this institution's liquidity needs and ensure its readiness to be sold. On November 15th, 2001, FINSAC sold its 76 percent equity stake in LOJ to Barbados Mutual Life Insurance Company, which took over effective that date.

Restructuring of the public debt arising from the resolution of the financial crisis:

The Government took over all of FINSAC/FIS liabilities as of March 31, 2000 and after writing-off/offsetting public sector and BOJ debt, and redeeming a portion of FINSAC debt with third parties, it converted all debt outstanding into LRS and is servicing this debt in cash. FIS or the Financial Institution Services is an institution originally created to deal with the first bank failures before the crisis took systemic dimensions, which issued its own debt (accounting for about 2 percent of GDP) serviced in cash, to finance the payout of depositors –mostly held by NCB. For the resolution of FINSAC's debt with BOJ (J$28.52 billion as of March 31, 2001), Cabinet approved the offset of J$13 billion of this debt against the Government's sterilized deposits held at BOJ and the issuance of Government securities to cover the outstanding balance, although this has experimented some delays (see section 5.2). Cabinet also approved the write-off of the debt with public sector entities (about J$19.4 billion, mostly held by the MOF). The Government has since redeemed a portion of FINSAC's liabilities with the private sector, using the proceeds from the privatization of the electricity company, the sale of UB, and the loans from the Bank, IDB, and CDB.

In replacing FINSAC/FIS bonds with LRS, the Government managed to reduce interest costs and lengthen the maturity of the bonds, improving the profile of its debt. The LRS pay an interest rate of T-Bill instead of an average interest rate of T-Bill +1 on FINSAC/FIS bonds, while US denominated bonds were replaced with bonds at their original fixed rates. The LRS that replaced FINSAC/FIS bonds also have longer maturity. For instance, before replacement, 83 percent of UB's debt had maturity date of 2006 or before, while a 100 percent of the replacing LRS would mature between 2006-2016 (Figure 1). This, however, had its costs in terms of a lower sale price for UB than originally envisaged and required a longer negotiation process (see section 5.2). The Government's strong negotiating position to ensure a reduction in the profile of FINSAC's debt at UB sought to set the standard for negotiations on the maturity and interest rate structure of the LRS replacing FINSAC/FIS debt at NCB, which accounts for 50 percent of the bank's assets. As a result, the Government recently designed the swap of bonds at NCB (effective April 1, 2001) following a structure consistent with the Government's goal of improving its debt management. This will have a sizeable impact due to the larger size of NCB.

Figure 1:Maturity Structure of Government Bonds at UB



Asset Disposal- Portfolio of Non-performing Loans:

FINSAC hired a consulting firm to assess the alternatives for disposing of NPLs and obtained a preliminary diagnosis of the status of this portfolio. Based on the consulting firm's report, FINSAC's board supported the sale of the entire NPL portfolio in bulk. Meanwhile, FINSAC's workout unit has continued its efforts, recovering about J$5.7 billion by August 2001 (with a remaining unpaid NPL portfolio of about J$ 17.5 billion), under a strong recovery strategy despite constrains (see section 5.2). These efforts have helped the Government provide a signal to the market that could reduce future moral hazard (avoiding the perception of lenient debt collection practices), while reducing somewhat the large fiscal cost of the crisis. Despite delays due to civil unrest in Jamaica in the summer of 2001 and the events of September 11, 2001 in the US that adversely affected the interest of potential buyers, the Government has recently submitted to Cabinet an offer by an international investor to buy the entire NPL portfolio, which entails an up-front payment of US$23 million to FINSAC under an agreement to share future proceeds according to the following schedule of percentages (based on increments of US$50 million): 15 percent of the first US$50 million recovered, 25 percent of the second, 35 percent on the next, 45 percent on the next, and 50 percent of the remainder. The offer is based on cash flow projections for the next 3-4 years where the buyer expects to collect approximately US$200 million in gross proceeds, about half of which would be paid to FINSAC. This projections are in line with FINSAC's, although under a more aggressive recovery strategy. If approved, the sale would materialize in the first quarter of 2002, subject to completion of their due diligence.

Asset Disposal- Portfolio of Other Assets:

By August 2001, FINSAC had sold J$11 billion of other assets including the seven hotels it had acquired. FINSAC still retains a significant portion of the commercial (office and retail) properties and it is making strong efforts to dispose of these properties, while planning to sell them as a package to potential investors. FINSAC expects to dispose of most of its remaining portfolio of commercial real estate assets (about J$2.4 billion) by early 2002.

Strengthening of Regulation and Supervision of the Financial Sector:

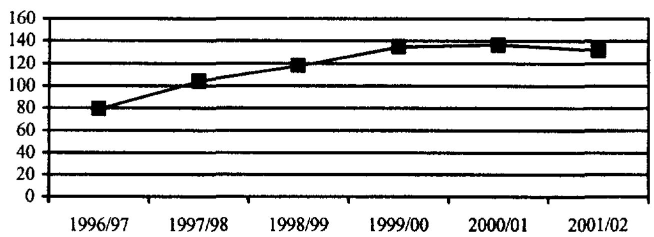
The Government's efforts to strengthen regulation and supervision of both bank and non-bank financial intermediaries are expected to reduce the risk of another financial crisis in Jamaica, which should lead to more sustainable growth and thereby achieve gains in poverty reduction going forward. Such efforts have been continuing since 1997. As outlined in section 3.3 (see also annex 8), legislation empowering the BOJ to intervene in distressed financial institutions without the Finance Minister's approval was drafted under the loan. Cabinet approval was obtained to amend bank secrecy provisions to permit exchange of information between regulatory agencies. The BOJ issued a "Ladder of Enforcement" to supervised entities clarifying steps in the intervention process. The BOJ also undertook a self-assessment of its compliance with the Basle Core Principles in 2000, followed by an independent assessment in 2001 by a team led by the IMF. The results from the self-assessment were concordant with those of the independent assessment. Both recognized compliance with most principles, thus reaffirming the chosen strategy of the Government to address remaining weaknesses to strengthen regulation and supervision currently being implemented. Necessary legislative measures have been approved and capacity building of the BOJ is proceeding. Regarding the non-banking sector, the authorities recently created the FSC with regulatory and supervisory powers over all non-bank financial institutions (insurance, pensions, and securities). They also revamped the poor legal, regulatory, and supervisory framework of insurance companies that had partly contributed to the crisis, first through technical assistance from the IDB and later continued through ongoing technical assistance from the CDB. Among the legislative changes, the new Insurance Act recently approved by Parliament and the Senate is judged to be in line with international best practices. The relevant regulations are expected to be ready for tabling in Parliament in early January. These will not require a debate and will therefore become effective as soon as they are gazetted. The Government is also engaged in improving pensions and securities regulations. In addition, the authorities established a Regulatory Policy Council to harmonize regulation and supervision between the FSC and the BOJ, with meetings already held.

Commitment to manage Jamaica's overall public debt:

As part of the loan, the Government committed itself to ensure that its overall public sector debt in Jamaican dollar terms would be consistent with the base case scenario of the SMP. The objective of this commitment was to ensure that the growth in Jamaica's overall public sector debt was initially arrested and that subsequently, it would decline. As of March 31, 2001, the total non-financial public sector debt of the Government (excluding BOJ and net of non-financial public sector holdings of FINSAC paper, LRS, and other securities) amounted to J$448 billion (137 percent of GDP). Domestic debt (including FINSAC debt) amounted to J$287 billion (87 percent of GDP), while external debt accounted for the remaining (50 percent of GDP). However, as discussed in detail in the IMF's latest Article IV Consultation Report and Review of the SMP published in early June 2001, this level of overall debt is 22 percentage points of GDP higher than anticipated in the SMP, although certain actions that were delayed as of March 2001, have since taken place reducing this difference (see section 5).

FINSAC/FIS debt- Managing this component of the total public debt is crucial. As noted in section 4.3, the Government wrote-off FINSAC's debt with the public sector and is committed to offset FINSAC's debt with the BOJ, and took over outstanding FINSAC/FIS bonds through their conversion into LRS. These actions and the use of IFI's loan and privatization proceeds to redeem part of FINSAC/FIS debt with the private sector are expected to reduce the stock of public sector debt, as depicted in Figure 2, from 137 percent of GDP in March 2001 (including FINSAC debt) to 132 percent in March 2002 (see section 5.2). Further, as illustrated in Figure 1, the maturity structure of the debt has been significantly lengthened in the conversion process. Replacing illiquid FINSAC bonds with LRS also improved the liquidity to the financial sector, thus enabling the restart of lending and growth. This has become evident with the recent timid spark in lending and the resumption of GDP growth estimated at around 1 percent in 2000/01 after four years of stagnation.

Figure 2: Public Sector Debt 1996/97-2001/02 (percent of GDP)



*2001/02 figures as projected in the revised SMP.

Non-FINSAC/FIS public debt- The Government has been restructuring this debt and improving its profile. It is increasing the share of fixed rate debt in the domestic market, which was less than 15 percent in FY2000/01 and is expected to increase to 60 percent in the medium term. It also continued to reorganize the stock of domestic debt towards longer-term instruments by replacing maturing T-Bills and other short-term debt securities with longer-term instruments. From FY1999/00 to FY2000/01, the stock of outstanding T-Bills declined 27 percent and the maturity profile of new LRS lengthened (74 percent of new LRS had maturities of 5 years and over, compared with 44 percent of new LRS in the previous FY). The auction of the first 10-year LRS assisted in this process. As a result, at end FY2000/01, 25 percent of the new debt issued had a maturity of 10 years and over compared with 9 percent at the end of FY1999/00. Furthermore, the Government's strategy to replace higher cost domestic debt with relatively lower cost foreign debt is reflected in the increase in the share of external debt from around 44 percent of GDP as of March 2000 to 50 percent of GDP as of March 2001 (although this strategy has obvious limits). This includes the inflows from IFIs for the restructuring the financial sector that are long-term funds at relatively low rates.

4.3 Net Present Value/Economic rate of return:
Not applicable because this is an adjustment operation.

4.4 Financial rate of return:
Not applicable because this is an adjustment operation.

4.5 Institutional development impact:
The institutional development impact of the loan is high, particularly considering the far-reaching changes achieved in the regulatory and supervisory framework that resulted in a strengthened capability of the BOJ to regulate, supervise, and intervene its supervised financial institutions, while the BOJ and the Government have taken steps to address weakness identified by the assessments of the Basle Core Principles. In addition, the FSC started to function as the new integrated regulator and supervisor for non-bank institutions (insurance, securities, and pensions) and its operational capacity is being strengthened. The recently established Regulatory Policy Council together with the BOJ and the FSC are harmonizing regulation and supervision, as part of the Government's strategy to reduce future opportunities for regulatory arbitrage (which had contributed to the crisis). These reforms, along with the sale of UB and the restructuring of NCB, have improved the environment for renewed bank lending through a more competitive, stronger, and liquid financial sector. This should be conducive to enhanced economic growth. The sale of LOJ completes the overhauling of the insurance sector with a more competitive sector (with international participants) focused in its core business, and under tighter regulation and supervision rules.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

Coordination with other IFIs- Strong coordination efforts with the IMF and the IDB ensured a coherent approach to support the Government's efforts in achieving its BRDP goals. The Bank's participation in the IMF Article IV and SMP assessment missions allowed its more conservative views on the evolution of interest rates and GDP growth projections to be openly discussed. These views were incorporated into the SMP and the Bank's CAS, as an alternative scenario. Revised monetary and fiscal policies required to achieve sustainability under this alternative scenario were also included. Unfortunately, even this scenario proved to be more optimistic than the actual macroeconomic situation faced by the Government ex-post, owing at least partially to the Government's defense of the exchange rate through use of the interest rate mechanism. There was strong coordination with the IDB in the preparation of their parallel financial sector loan, and as a result, the process moved at a faster pace and the Government was able to get a larger pool of funds to address its liquidity needs. The IDB loan approved in September 2000 had two tranches of US$75 million each, with the first tranche (comparable to the Bank's first loan) disbursed shortly thereafter. The design of the loan different from the Bank's programmatic, single tranche loans contributed to the choice of parallel financing versus a pure cofinancing effort. A US$25 million loan of the CDB was also approved in September 2000.

Macroeconomic shocks- The main risk facing the program is the possibility of macroeconomic slippage due to unforeseen circumstances such as September 11th events in the US, or even less costly events such as the violence in July, or the passing of Hurricane Michelle through Jamaica. Indeed, as in any banking sector operation, there is the threat that global economic instability and/or recession in the US could have negative implications for the Government's overall BRDP. This is particularly true in Jamaica because of the need to maintain strict fiscal policy and the country's experience of negative per capita GDP growth for much of the last 25 years. The Government has been able to weather several risks of lesser magnitude with commendable discipline, with an overall primary surplus of 12 percent of GDP in FY2000/01, despite a shortfall in revenues. The revised SMP targets are taking into account the recent shocks and entail tighter measures to which the Government has expressed its commitment.

5.2 Factors generally subject to government control:

The outstanding commitment of the Government in implementing its BRDP has been crucial for the success of the loan. This began with the widespread publication of the SMP, stressing the Government's commitment to structural benchmarks that were also included in its macroeconomic program presented to Parliament in March 2000. This provided a positive signal both to the domestic and foreign markets that the Government had decided to endure tight discipline to achieve the final resolution of the crisis, despite its large costs. In addition, by divesting financial institutions to foreign investors, the Government brought into the country fresh capital, technology, capacity, and increased competition that would help increase lending and thus boost economic growth. Such investments were also expected to improve market's confidence. However, three aspects affected the program, two more generally under the Government's control –debt management and the handling of FINSAC's debt at BOJ—, while a third aspect responded to mixed factors, some outside the control of the Government. These issues are described next, including also two additional relevant factors that could affect the program as well.

Delays in the sale of UB- Prior to Board presentation, the Government provided the Bank with a sale agreement signed by both the buyer and the seller as evidence of the sale. Despite the fact that there were certain preconditions stipulated in the terms of the contract, the Bank considered the signed contract as adequate evidence of the sale. However, the final transfer of ownership of UB from FINSAC to RBTT was delayed until March 2001. This was mainly because of the difference in interest rates on LRS already in the market and those being offered to RBTT in exchange for FINSAC bonds. Following the signing of the sale contract –and after recommendations from its international advisors in the sale process— RBTT argued that in case it had to access the market for liquidity it would have to take a haircut on the price of the LRS that replaced FINSAC bonds. While the signed sale contract gave no room for negotiation of the interest rates on LRS, a final decision on the maturity structure of LRS had not yet been made, which enabled RBTT to use the liquidity argument to reopen negotiations. Also, as the negotiation process approached March 2001, the Government perceived the buyer had increased its bargaining power from the explicit commitment to sell UB before March 31, 2001 as benchmarked in the SMP. Given that a signed sale contract was received prior to Board presentation, the UB sale was recorded in the loan document as a completed operation.

Negotiations went on for several months, with RBTT pressing hard for very short-term maturity paper to ease its potential liquidity needs –which would have instead jeopardized the Government's concerted efforts at improving the maturity profile of its debt. Negotiations were resolved leading to a final sale agreement in March 2001 that preserved the maturity originally proposed, which together with the lower interest rate on the replacing LRS enabled the Government to substantially improve the servicing profile of its debt. The Government accepted a lower sale price for the bank and provided a letter indicating its willingness to cash LRS to meet UB liquidity needs upon receipt of a three months notice. Also, during the negotiation process, UB had an overdraft, which RBTT refused to take over with the purchase of the bank. The MOF cleared the overdraft by mobilizing deposits from one of its agencies to the bank. Since March 2001, RBTT has been fully in charge of UB –although effectively involved in its management since December. The bank is in the process of upgrading its information systems, staff capacity and skills, and has restarted fresh lending.

Restructuring of FINSAC debt at BOJ: As of August 2000, this debt was J$25.9 billion. However, Cabinet approval for restructuring this debt was obtained at a later date (October 17, 2000) and thus, the amount of bonds to be restructured included accrued interest for a total of J$26.2 billion (or J$28.5 billion as of March 2001). The approval supported the prior agreement provided to the Bank and signed by both the Government and the BOJ indicating that J$13 billion of the FINSAC paper would be offset against deposits of the Government held at the BOJ. For the balance, the Government agreed to issue special LRS to the BOJ. The settlement of this issue has been delayed, as the Government and the BOJ still have to agree on the interest rate to be paid on these bonds, due to its effects on the cash flow position of the BOJ. However, the authorities have reaffirmed their commitment to carry out their earlier Cabinet decision. This is being taken into account in the preparation of the second loan.

Debt Management*:* Public sector debt stabilized at around 137 percent of GDP by end-FY2000/01. The larger than projected level of debt reflects (i) the assumption of previously off-balance sheet liabilities in the privatization process, and lower than anticipated sale proceeds–or revenue received at a later date than initially projected; (ii) valuation effects resulting in part from the larger than expected depreciation of the Jamaican dollar; (iii) previously unforeseen non-FINSAC debt that has been assumed and/or guaranteed by the Government; (iv) higher than expected capitalized interest on FINSAC securities; and (iv) the accounting treatment of FINSAC bonds held by the BOJ.

As explained in the 2001 IMF's Article IV and evaluation of the SMP, which adjusted the original SMP estimates, the difference between the projected and actual debt stocks with respect to GDP, under comparable basis, was about 22 percentage points. Although very high, a large portion of this difference is attributed to factors that have since been addressed. Around 1 percentage point was explained by lower growth and by the larger overall deficit of the nonfinancial public sector than earlier projected. The remaining difference reflects:

- Outstanding FINSAC liabilities (4 percent of GDP): These liabilities were expected to be redeemed by March 2001 using the proceeds of the sale of the power company (JPSco), or written-off as part of the liquidation of several FINSAC-controlled institutions or against outstanding assets. The redemption has been proceeding after March and hence were not reflected in a lower outstanding balance as of that date. The outstanding FINSAC debt as of March 2001 also includes J$4.3 billion of debt held at firms in liquidation to be transferred to FIS. This amount is expected to be written off once the legal liquidation process is formally completed. Also, the SMP had assumed proceeds from the sale of LOJ to be received by March 2001 and used to redeem additional bonds. The sale of LOJ took place in December 2001 and thus, the proceeds that will be used to further reduce the stock of bonds were not reflected in March 2001, as originally envisaged.

- Financial sector restructuring (4.8 percent of GDP): As a result of higher than anticipated interest rates, the stock of debt increased due to additional capitalized interest on FINSAC securities. Also, the process of restructuring and privatization of FINSAC-controlled institutions led to the inclusion as debt of several items that were previously off-balance sheet contingencies. Finally, as noted above, the sale of UB was delayed and the final terms were less favorable than originally envisaged.

- Valuation adjustments (4.5 percent of GDP): The real depreciation of the Jamaican dollar (which was assumed to remain constant in real terms under the SMP) implied a larger debt stock –measured in Jamaican dollars, both for the external debt and for the U.S. dollar-denominated domestic debt. In addition, the stock of domestic debt increased more than the financing received, as domestic securities are sold using an auction system with coupons below market rate. The result is the nominal debt recorded (at par) is above actual receipts, which reflect the discounted price paid.

- Guaranteeing of additional non-FINSAC debt (2.9 percent of GDP): The Government guaranteed debt of a sugar company, the University of the West Indies, a US$125 million loan to the Bauxite Alumina Trading Company, as well as other previously deferred obligations.

- The accounting treatment of the FINSAC securities held by the BOJ (4.7 percent of GDP): As noted above, Cabinet approval was obtained by the Government to exchange a portion of FINSAC bonds held by the BOJ for an equivalent amount of special LRS yielding below market rates. This arrangement differs from the assumption prevailing at the time of the preparation of the SMP that envisioned the writing-off of the entire stock of bonds against non-interest bearing liabilities of the BOJ with the central Government. As a result, the related reduction in debt stock projections in the SMP did not materialize as originally planned.

Sale of NCB, NPLs, and other assets- Despite the Government's commitment to keep its majority stake in NCB for the shortest time possible, the less than optimal structure of NCB's balance sheet has made the sale more difficult to materialize. However, based on FINSAC's technical recommendation, the Government recently submitted to Cabinet an offer by an international investor to buy FINSAC's share in NCB, which could result in the sale of the bank by March 2002. If delays arise in the negotiation process, the Government would have to manage NCB for a longer period of time with unfavorable consequences for the resolution of the crisis.

Regarding NPLs, recovery efforts have been constrained by the fact that, as in several developing countries where about 20 percent of the borrowers in number hold 80 percent of the loans by amount, the individual loans in the NPL portfolio managed by FINSAC are likely to be held by the most powerful and politically influential borrowers. This may have led the Government to engage in the ongoing strategy of selling the NPLs in bulk, since FINSAC being a public sector entity may be perceived as having the same political constraints as the Government in recovering these loans. The Government still faces the risk of another failed attempt to sale both the portfolio of NPLs and other assets, as it was the case of the NPL portfolio in July due to the violence –with worsening perspectives since September 11th that restricted the willingness of US investors. However, the Government has since submitted to Cabinet an offer by an international investor to buy the entire NPL portfolio that if approved, is expected to be finalized by early 2002.

Implementation of Regulation and Supervision: Although the Government has undertaken a major overhaul of regulation and supervision of both bank and non-bank financial intermediaries, several of these changes –particularly on the non-bank side— are in its earlier stages and the challenge remains to implement them effectively. This challenge is ameliorated by the careful design of new laws, increased regulatory powers and improved regulations, which are also enhanced by several technical assistance efforts from the US Federal Reserve, the IMF, and other assistance through the IDB and CDB technical assistance component of their loans.

5.3 Factors generally subject to implementing agency control:
FINSAC (under the supervision of the MOF, the main implementing agency), exhibited a large degree of cooperation and expertise both in the preparation of the loan as in undertaking its duties in the implementation of the program. FINSAC's management, in coordination with the Government, carefully designed its strategy to increase ownership at both LOJ and NCB leading to successful negotiations, despite heavy political pressures. This led to compliance with legal requirements in proceeding towards the resolution of these two institutions beyond those required in the loan agreement. In addition, FINSAC's management exhibited outstanding negotiating skills with RBTT in the long and difficult sale process. RBTT first expressed an interest in UB in the second quarter of 2000, but took over the bank only in March 2001. The same level of skill proved useful in the sale of LOJ, as in the

ongoing process of selling of NCB. Finally, the adaptability of FINSAC has become evident in the process of sale of the NPLs, repackaging this portfolio shortly after the failed attempt to sell recently.

5.4 Costs and financing:
Not applicable.

6. Sustainability

6.1 Rationale for sustainability rating:
Since the first phase of the BRDP loan is part of a medium-term macroeconomic program of the Government, it is too early to fully assess the success of the program in meeting its broad goals and judge its long-term sustainability. However, several of the important steps achieved thus far, such as the sale of UB, the sale of LOJ, and many of the banking reforms undertaken under the BRDP, are harder to reverse. These actions provide a degree of confidence regarding the commitment of the Government and their willingness to find alternatives to deal with risks as they arise. Furthermore, the Government's strategy provides a signal to the financial sector that a new framework is in place with stricter and better rules of the game, enforced in a timelier manner. These actions also lay the ground for a healthier financial system that exhibits enhanced competition with the entrance of international players. Therefore, the sustainability of the loan's specific objectives is likely. Securing the broader objectives of the Government's BRDP is subject to several risks however, and thus, it can only be judged over the medium run when the final resolution of the crisis is achieved and, growth is fully restored. The large debt will have to be paid over a long time horizon with a high cost to tax payers –total debt service obligations in FY2001/02 are estimated to account for 62 percent of total expenditures— and GDP growth would be crucial in these efforts. The main risks involved are summarized next.

- The most important risk arises from the need to maintain the macroeconomic stability the Government has achieved thus far in broad compliance with their program spelled out in the SMP. This has been driven by the generation of very large primary surpluses at 12 percent of GDP during FY2000/01, and a reduction in the interest rate path that has enabled the Government to service the large stock of debt. However, this has already been a difficult task worsened by the violence manifested in July although not directly related to the fiscal measures), which have added to pressures on Government to increase expenditures. Further pressures emerged with the events of September 11th in the United States that have major negative implications on revenues from tourism and other sectors of the Jamaican economy that are crucial for restarting economic growth. The request for emergency assistance from the Bank, recently presented to the Board, is expected to address this risk and help the economy continue moving towards a more favorable growth path.

- A second important risk that remains is the constraint on the Government's ability to dispose of NCB, the largest intervened bank (see section 5.1). If these risks were to materialize, the Government would not be able to finalize the resolution of the crisis as expected, although this risk is ameliorated by the ongoing negotiation process expected to materialize by March 2002.

- The third major risk going forward is institutional. As noted in section 5.2, the Government has a major role in monitoring the implementation of recently enacted regulation, particularly regarding the effective performance of the FSC. In addition, the Government has to continue its efforts to provide an environment conducive to renewed prudent lending. In these regards, the Government, as well as banking sector participants have recognized the importance of a centralized credit registry for the future growth and development of the financial sector. Since such institution currently does not exist in Jamaica, the Government has started taking steps for its establishment.

- A fourth risk is related to the disposal of the remaining portfolio of assets acquired by FINSAC. The Government announced that it plans to close down FINSAC (expected to take place by early 2002) to signal the end of the resolution of the crisis. The laudable commitment of the Government in disposing of intervened institutions and a portion of the assets through FINSAC has hinged upon a strong political and technical support. The proposal to transfer the remaining assets to FIS, upon closure of FINSAC, requires the same level of commitment and support at FIS as prevailed at FINSAC. The close working relationship that has prevailed between the two organizations since FIS has been dealing with the resolution of firms in the process of liquidation is expected to contribute to the success of the transition. In addition, if the proposal to sale the entire NPL proposal being presented to Cabinet portfolio does not materialize when FINSAC is closed, FIS will also require a similar capacity than that prevailing at FINSAC to sell this portfolio, together with that of other assets.

- A final risk is the vulnerability underlying the restoration of growth and sustainability of the interest rate path to enable the continuity of the Government's debt management program. Provided that Jamaica has been on a knife-edge in handling the difficult macroeconomic situation and that it has already faced disturbing events, additional domestic or external unexpected events will only heighten the high risk of the implementation of the program. In contrast, the recent decline in international interest rates improves the profile of international debt held by the Government.

6.2 Transition arrangement to regular operations:
Not applicable.

7. Bank and Borrower Performance

Bank

7.1 Lending:
Bank performance in the implementation of the first phase of the BRDP was Highly Satisfactory. The response of the Bank to the Government's request was done in a strategic, yet timely fashion. It started with the heavy involvement of the team in the joint diagnostic (with the IMF) of the problems and the design of the financial sector component of the SMP. Bank staff also displayed significant awareness of the political realities of the situation in Jamaica, also considering the prior Bank loan implementation experience with the country as reflected in the 1998 Country Assistance Note (CAN) and previous loans to Jamaica. The team tailored the loan to be programmatic, with actions to be taken prior to disbursement (and prior to Board presentation) seeking to minimize the risks of the operation. It kept management informed on a regular basis and sought their guidance on complex aspects of the program to strike a balance between both the Government's and the Bank's objectives. In addition, attending to the concern smaller states have expressed to the Bank in the past regarding the capacity and seniority of staff they typically have to deal with, a specially crafted team was put together while senior sector management (including the Sector Director and Sector Manager) led the appraisal mission. This enhanced the dialogue with the Government, particularly on the choice and design of the lending instrument. As a result, the transactions to be supported by the first loan were carefully selected to ensure that several serious steps were taken towards the resolution of the crisis, but without risking a delay that would have jeopardized the success of the BRDP due to its large cash needs. The team also collaborated with the country unit (CMU) staff, particularly in the context of the concomitant preparation of the CAS, which was crucial for the success of this operation. In addition, the team coordinated closely with the IMF and the IDB in the preparation process, which resulted in a broader assessment of tighter macroeconomic scenarios with consideration of measures required for its sustainability (see section 5.1).

7.2 Supervision:
Given the structure as a single-tranche adjustment operation in which the agreed policy actions were implemented prior to Board presentation, there was limited scope for further supervision. However, being the first of a set of programmatic loans, supervision of the loan took place together with the preparation of the second loan under the BRDP, currently in process. As a result, the Bank has remained engaged with the authorities in following up implemented actions and ensuring effectiveness of commitments, which have helped in the design of the second loan. The Bank's performance in this process has been Satisfactory.

7.3 Overall Bank performance:
Overall Bank's performance has been Highly Satisfactory.

Borrower

7.4 Preparation:
Borrower performance in the identification and preparation of the project was Highly Satisfactory. The Bank had extensive interaction with the main institutions involved (MOF, FINSAC, BOJ) throughout the process, which reflected the high degree of ownership of the program. The counterpart had selected an exceptionally qualified core team with MOF in the lead, which maintained a coordinated inter-institutional reform, bank resolution and debt management program.

7.5 Government implementation performance:
The implementation performance of the borrower is Satisfactory. The Government took all the actions supported by this loan prior to Board presentation. Although there were certain delays in actions to which the Government had committed, these have since been resolved to the satisfaction of the Bank. As regards the commitment to sustainable debt management, the Government faces significant challenges and continues to be committed to address them as necessary to maintain its broad compliance with the SMP. These issues form the basis of the Bank's emergency lending operation presented to the Board on December 20th, 2001 and the second loan currently being prepared. In the wake of September 11th events in the US, the Government and IMF have reviewed and agreed on revised SMP indicators for FY2001/02, including fiscal deficit and primary surplus targets. Agreement has also been reached between the Government and IMF to negotiate an SMP program for FY2002/03.

7.6 Implementing Agency:
Access to data was superior throughout all the stages of the loan preparation process and the MOF, BOJ, and FINSAC all provided extended background on intricate aspects of the crisis and the restructuring process, which were crucial for the design of the operation and the drafting of the MOP. Also, except for the delay in the final completion of the sale of UB and in handling FINSAC's debt at the BOJ, as well as the difficult process of dealing with a large stock of public sector debt, all the necessary actions were undertaken on time, sometimes in advance. The latter was the case of the increase in ownership of NCB and LOJ prior to Board presentation (See section 4).

7.7 Overall Borrower performance:
The overall borrower performance was Satisfactory.

8. Lessons Learned

The principal lessons learned from the implementation experience of the BRDP loan as the first phase of the Bank's support to the Jamaican Government in resolving the crisis are:

i) Importance of Client Commitment to Reform: The successful implementation of the first phase of the Government's BRDP follows from a strong ownership of the program and commendable commitment of the client. The client clearly spelled out the components of its strategy early on to its internal and external constituencies. It also published the SMP. The Government's excellent cooperation with Bank staff also helped the team in their efforts to change the prior loan implementation experience of the country at the Bank, despite the program being subject to major risks. This high level of commitment and ownership of the Government made it more favorable for the Bank to provide support, particularly since the cost of no action was deemed high. The satisfactory implementation of the program thus far proved these efforts rewarding, which has led to the progress in the preparation of a second loan as part of this programmatic phased approach. However, there is little doubt that this has been a high risk/ high reward operation and many difficulties are likely to arise.

ii) The importance of selecting an appropriate lending instrument: The choice of at least two single-tranche programmatic loans has been key to the restoration of operational relationship with Jamaica and in ensuring the successful performance of the loan. The arguments of flexibility, promptness, and feasibility of compliance with attainable short-term objectives provided to the authorities in the preparation phase, have worked to the advantages of both parties in moving closer to the BRDP medium-term goals. The choice of instrument enabled taking into account lessons from past Bank experience with Jamaica, coupled with recent experience in other projects involving restructuring of banking sectors after similar crisis processes such as Mexico's. Through this approach, the Bank reduced the risk of delay and failure in the achievement of the program's medium term aims by locking the client into an overly ambitious, politically sensitive, and risky agenda with excessive conditionality. Had the loan chosen a one loan/two-tranches approach, first, the room to adjust required transactions would have been scarce, which would have made necessary adjustments in the terms of the loan with the consequent reputational risks for the country; and second, a much longer time would have been required for preparation of the loan given the broad institutional aspects of the reform of regulation and supervision. The latter was particularly the case of non-banking intermediaries, given that at the time the loan was being prepared, FINSAC had intervened and was monitoring closely most of the non-banking sector. This provided some assurance that the completion and implementation of these reforms could come at a needed slower pace (and hence, left for the second loan), without compromising the success of the program. The added flexibility has also proven to be necessary for the preparation of the second phase of the loan program, particularly in light of the delays surrounding the sale of UB, the violence in July, as well as the ability to deal with the impact of unfortunate events of September 11th in the US. In addition, the choice of a single tranche first loan enabled the design of specific transactions to be achieved prior to Board presentation, which sped the disbursement process. The latter has also provided the Bank with leverage in the design of the second loan to ensure that significant steps are taken in the finalization of the crisis resolution process.

iii) Close collaboration with other IFIs and with the country staff: Given that the risks involved were very high, having an inter-institutional effort proved useful. The Bank was able to stress the likelihood of less than favorable scenarios as alternatives in the Government's program included in the SMP due to its involvement in the financial sector aspects of that process. In addition, the Bank leveraged from the work of the IDB regarding sectoral aspects of non-financial regulation and supervision. The close collaboration with the CMU staff and country economist was also crucial for the success of the loan.

9. Partner Comments

(a) Borrower/implementing agency:

BANK RESTRUCTURING AND DEBT MANAGEMENT PROGRAM ADJUSTMENT LOAN

IMPLEMENTATION COMPLETION REPORT (Loan No. 7036 JM)

I. BACKGROUND

During the decade of the mid 1980s to mid 1990s Jamaica made considerable progress in stabilizing the economy and undertook many needed structural adjustment programmes. The liberalization of the financial system that occurred however was not accompanied by a sufficiently robust prudential and supervisory infrastructure. At the same time, the earlier fiscal consolidation was reversed, as public sector domestic borrowing increased significantly, with central government's efforts to eliminate the losses of the central bank and public sector wage settlements, which outpaced inflation. Despite these developments, inflationary pressures were reduced and relative stability was maintained in the foreign exchange market.

The rapid expansion in the financial sector between 1991 and 1997 exposed significant problems within the banking and insurance industries as evidenced by capital shortages and asset quality problems at several financial institutions. These problems arose in part from weak management practices, the interrelated relationships between affiliated banks, building societies and insurance companies.

To address these challenges the Jamaican authorities designed and embarked on a number of initiatives to deal with the adverse debt dynamics and implement significant reforms in the financial sector. As part of the initiatives the support of multilaterals namely the World Bank, The International American Development Bank (IADB) and the Caribbean Development Bank (CDB) was sought, this led to the Bank Restructuring & Debt Management Program.

II. PROGRAM OBJECTIVES

The main underlying objectives of the Bank Restructuring and Debt Management Loan Program were (i) to address the increasing debt burden associated with the FINSAC liabilities and the lack of liquidity faced by financial intermediaries and (ii) provide for the resolution of the banking crisis and the improvement of financial intermediation in Jamaica.

More specifically, the salient components, included a Bank Restructuring Program and a Debt Management Program:

In the area of Bank Restructuring, the program was intended to achieve three (3) broad objectives:

(i) The completion of the resolution of banks and other financial institutions that were intervened by the Government;

(ii) Selling the large volume of non-performing loans and real estate acquired by the Government's restructuring agency (FINSAC): and

(iii) Strengthening and consolidating the legal, regulatory, supervisory and enforcement framework for the safe and sound operation of the financial sector.

In the area of Debt Management, the strategy was intended to achieve the following objectives:

(i) Write off FINSAC's debt to the Central Government

(ii) Restructure FINSAC's debt to public sector entities (Bank of Jamaica, and other Government entities) and having FINSAC's debt offset against those entities liabilities to the Government.

(iii) Reduce the stock of FINSAC debt by using loan proceeds received from the IBRD, IADB and CDB.

(iv) Restructure FINSAC paper at Union Bank to cash paying Government Securities.

(v) The assumption by government of all remaining FINSAC liabilities, which are outstanding as of April 1, 2000, and the beginning of full debt service payments in cash for FINSAC paper.

(vi) Maintain an economic and financial framework, within the context of an IMF Staff Monitored Program (SMP) to consolidate the recent macroeconomic gains and strengthen the conditions for the resumption of growth over the medium term.

III. BANK SUPPORT: A PROGRAMMATIC LENDING APPROACH

Overall, the project supported a centrally directed and demand driven approach, which has become characteristic of all World Bank projects administered in the 1990s'.

Identification & Preparation: Pursuing a Staff Monitored Programme as agreed by the IMF provided a solid macroeconomic underpinning in the formulation of the project and in obtaining a clear understanding on its main sub-components. Consequently, the Government of Jamaica was able to work closely together with the Bank in preparing the Project design.

Close consultations and coordination were also held with the IADB and CDB, which provided parallel financing through a similar loan. This resulted in the smooth preparation of the programme.

Appraisal: The Bank was involved in the appraisal process and suitable expertise was provided, during consultations. The appraisal and project design were largely sound. The implementation plan was detailed and contained concrete performance indicators.

Supervision: The Bank's supervision was adequate. Mid term supervision missions by the Bank were conducted and this involved having consultations with the entities responsible for executing various aspects of the programs and receiving status updates/progress reports and/or clarification on certain issues. The team demonstrated its interest in Jamaica's legislative process when members of the mission in conducting their review/ supervision accepted the invitation of attending a Sitting of the Joint Select Committee of Parliament, which was discussing the bills relating to amendment of the necessary pieces of legislation.

IV. ACHIEVEMENT OF PROGRAM OBJECTIVES

(i) <u>Completion of the restructuring/resolution/sale of banks and other financial institutions intervened by the Government</u>

> Remarkable progress has been made in restructuring/resolving and selling financial institutions intervened by Government. The Merger of four intervened banks and other financial institutions into the new Union Bank was completed and the sale of the bank to Royal Bank of Trinidad and Tobago was also completed. National Commercial Bank (NCB) was restructured and a new Management team was appointed. This restructuring facilitated FINSAC taking control of 76% of the bank.

In the insurance sector the FINSAC intervened institutions were sold.

(ii) Sale of FINSAC's portfolio of real estate and non-performing loans

Despite the failure to attain the estimated/projected targets for complete sale of real estate properties i.e. residential and commercial, significant progress was made in the area. For the non-performing loan portfolio, FINSAC has been having discussions with prospective buyers. However delays have been experienced because of the events of September 11, 2001 in the US.

A plan was also designed and approved by the Board of FINSAC for the complete disposition and administration of its non-core assets. Although FINSAC is making its best efforts to sell the remaining non-core assets there has been a decline in investors' interest in the wake of the events of September 11, 2001.

(iii) Consolidation and strengthening of the regulatory framework of the financial sector

Under this sub-component, which provided for the reduction of the vulnerability of the sector to future crises, the targets were achieved.

- The legislative framework was strengthened with the enactment of amendments to the Securities Act, the Unit Trust Act and the Bank of Jamaica Act to facilitate the exchange of information among regulators. The Financial Services Commission Act was also passed and the new non-bank (non-deposit taking) supervisory authority established. Concerning the operations of the Commission, the Board, CEO and the Chiefs of Insurance, Securities, Director of Corporate Services and Examinations were appointed. The appointment of the Chief of Pensions has been deferred until the pensions legislation is approved and assented. An organizational structure has been developed.

- The new Insurance Act was also enacted. The draft regulations have been prepared, have been discussed with the industry and will take effect as soon as they have been gazetted.

- The independent Assessment of the Bank of Jamaica's compliance with Basle Core Principles was done. As a result an action plan was drafted detailing plans for the implementation of the recommendations.

- The Bank of Jamaica updated the Supervisory Ladder of Enforcement.

- The Regulatory Policy Council was established and meetings held.

- A new Financial Sector Crisis Intervention Policy Matrix was developed and approved by Cabinet. The Honourable Minister of Finance tabled a Ministry Paper in the Houses of Parliament in this regard.

- Research was conducted to inform proposals to provide for enhanced legislative framework for complex financial groups/mixed conglomerates. Cabinet approval has been given to amend legislation that will allow the Bank of Jamaica to intervene in troubled institutions and enhance the BOJ's regulatory authority over complex groups of companies.with deposit-taking institutions.

(iv) GOJ making regular cash payments as agreed on remaining FINSAC debt held by private sector

Cash payments in excess of $13.7B were made in respect of both FINSAC and FIS liabilities to private sector holders, from the Ministry of Finance resources, proceeds from the sale of assets, FINSAC internal resources and proceeds received from multilaterals under the loan.

(v) Dealing with FINSAC liabilities

Considerable progress was made in this area as:

- The Ministry of Finance assumed FINSAC liabilities and issued government securities in excess of JA$100Billion to financial institutions.

- Adjustments were made by public sector entities to set off their debts to the Ministry against those owed to them by FINSAC.

- Approval was received for Government to use its $13Bn in the sterilized funds at the Central Bank to set off FINSAC liabilities, and issue government securities to cover the outstanding balance.

- Loan proceeds received from the IBRD, IADB and CDB, were used to reduce the stock of FINSAC debt.

- Stabilization of public debt to GDP ratio was achieved.

(vi) Staff Monitored Programme

Jamaica continued to meet the targets as established. The International Monetary Fund (IMF) carried out reviews on the agreed Staff Monitored Programme (SMP).

V. MAJOR FACTORS AFFECTING THE PROGRAM

The Bank Restructuring and Debt Management Program was affected by:

- **The nature of the legislative process.**

Owing to the far reaching implications and the significant reforms to be undertaken, a Special Joint Select Committee of Parliament was appointed to discuss the issues and hear the concerns of stakeholders. The passage of the amendments to the Securities Act, Unit Trusts Act, Bank of Jamaica Act and Financial Services Commission Act were relatively swift because they were small to moderate in size. The Insurance Bill however, is very lengthy and contemplated significant reforms. This created much debate, which led to the prolonged sitting of meetings of the Joint Select Committee. It was finally approved by the Lower house on November 27, 2001 and by the Senate on December 7, 2001.

- **A slight increase in the debt stock or a larger than projected public sector debt stock**

- **The publication of information as it relates to the disposition of intervened entities and non-core assets.**

- **The events of September 11, 2001, the disturbance in West Kingston and the damage done to the agricultural sector by flood rains.**

VI. PROGRAM SUSTAINABILITY

The Government is committed to its medium-term economic programme which is being monitored by the IMF under the Staff Monitored Programme. This programme has laid the foundation for faster growth and a reduction in inflation, which will create the shift required in the public sector balance from a deficit to a surplus.

While further improvements are needed substantial progress has been achieved in other important areas.
In this regard the Government of Jamaica has requested the Bank's assistance of a follow-on project to ensure sustainability of the reforms.

VII. BANK PERFORMANCE

Overall, the Bank's performance in all stages of the project cycle was satisfactory.

VIII. ASSESSMENT OF OUTCOME

The Government of Jamaica is of the view that the major objectives of the Bank Restructuring and Debt Management Program have been achieved.. The legislative framework providing for improved supervision has been strengthened and FINSAC's liabilities to Central Government has been written down and reduced. Overall, measures have been implemented to facilitate improvements in the country's macroeconomic picture and restore stability to the financial sector.

IX. KEY LESSONS LEARNED

The implementation exercise of the project, has brought to the fore the following lesson:

- Sensitive information as it relate to expected timeframe for the disposal of assets should never be publicized. This has the potential of creating delays and negatively affecting the bargaining power of the seller.
- A properly designed and managed programme can be executed successfully.

(b) Cofinanciers:
Not applicable.

(c) Other partners (NGOs/private sector):
Not applicable.

10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Not applicable because this is an adjustment operation		

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Not applicable because this is an adjustment operation		

[1] End of project

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Project Cost By Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
Not applicable because this is an adjustment operation			
Total Baseline Cost	0.00	0.00	
Total Project Costs	0.00	0.00	
Total Financing Required	0.00	0.00	

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1]				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
3. Services	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
4. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
3. Services	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
4. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
5. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
6. Miscellaneous	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Total	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)

[1/] Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**

Annex 3. Economic Costs and Benefits

Not applicable because this is an adjustment operation.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
7/2000	3	1 Sr. Financial Economist, 1 Financial Economist, 1 Financial Sector Specialist Consultant		
8/2000	4	1 Sr. Financial Economist, 1 Financial Economist, 1 Sector Manager, 1 Country Economist		
Appraisal/Negotiation				
9/2000	5	1 Sr. Financial Economist, 1 Financial Economist, 1 Sector Manager, 1 Country Economist, 1 Banking Supervisor *This mission was led by the Sector Director. The Credit Risk department also sent a Senior Economist/Regional Credit Manager to join the mission.		
Supervision				
8/2001	4	1 Sr. Financial Economist, 1 Financial Economist, 1 Country Economist* *the 8/01 mission was combined supervision, ICR, and preparation for Second Bank Restructuring and Debt Management Program Loan	S	S
ICR				
see supervision mission				

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	27.2	124.5
Appraisal/Negotiation	11.5	53.4
Supervision	12.7	36.3
ICR	3.1	7.7
Total	54.5	221.9

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating
☐ *Macro policies*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Sector Policies*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Physical*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Financial*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Institutional Development*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Environmental*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
Social	
☐ *Poverty Reduction*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Gender*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Private sector development*	○ *H* ● *SU* ○ *M* ○ *N* ○ *NA*
☐ *Public sector management*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*
☐ *Other (Please specify)*	○ *H* ○ *SU* ○ *M* ○ *N* ● *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☐ *Lending*	● *HS* ○ *S* ○ *U* ○ *HU*
☐ *Supervision*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	● *HS* ○ *S* ○ *U* ○ *HU*

6.2 Borrower performance	*Rating*
☐ *Preparation*	● *HS* ○ *S* ○ *U* ○ *HU*
☐ *Government implementation performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Implementation agency performance*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Overall*	○ *HS* ● *S* ○ *U* ○ *HU*

Annex 7. List of Supporting Documents

President's Report no. P7397 JM, November 2, 2000.
Jamaica Country Assistance Strategy, Report no. 21187, November 2, 2000.
Jamaica: Staff Report for the 1999 Article IV Consultation, IMF Staff Country Report no. 00/08, January 27, 2000.
Jamaica: 2001 Article IV Consultation and Review of Staff-Monitored Program, IMF Country Report no. 01/83, June 14, 2001.
Jamaica: Country Assistance Note, Report no. 19356.

Additional Annex 8. Financial Sector Adjustment Loan: Policy Reform Program

Objective	Policy Actions
Maintain sound economic policy framework	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - In the Letter of Sector Development Policy (LSDP), the Government committed to maintain a sound macroeconomic framework consistent with the policy objectives and programs described therein and in the SMP effective June, 2000. The Government also committed to undertake periodic, scheduled reviews of performance as agreed under the SMP (para. 11). - In September 2000, IMF staff undertook a review of the SMP reporting that the Government program was "broadly on track". **PROGRESS SINCE EFFECTIVENESS** - Both the Bank and the IMF (the latter most recently in its periodic review of September 2001) have judged the macroeconomic framework to be sound. However, these assessments were done prior to the events of September 11, 2001 in the US. These events have had a major negative impact on the economy of Jamaica. The Bank and the IMF have been working on re-assessing the macroeconomic framework, and the IMF has since prepared a revised SMP in which the Government comits to tighter fiscal measures to keep the macro framework on track.
Reduction of public sector debt	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - In LSDP, para. 10, the Government committed to ensure reduction of public sector debt in Jamaican dollar terms consistent with the base case scenario of the SMP. - In LSDP, para. 13 (vi), the Government committed to explicitly assume all remaining FINSAC liabilities outstanding as of April 2001 as part of domestic public debt making full interest payments in cash. **PROGRESS SINCE EFFECTIVENESS** - Public debt has not been reduced in line with commitments due to reasons outlined in section 4.2 of this document. - Government has assumed all FINSAC liabilities and is servicing them in cash.
Reduce debt and pay interest in cash on remaining stock	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - In the LSDP, para. 13 (vi) Government confirmed its commitment to ensure that FINSAC will not incur additional liabilities over and beyond those identified in previous letter to the Bank dated August 31, 2000. - In the LSDP, para. 13 (v), Government committed that Bank funds will be used for a reduction in the stock of FINSAC debt. - Cabinet Decision No. 25/00 dated July 24, 2000 approved the write-off of FINSAC debt owed to the Ministry of Finance amounting to J$19.4 billion. - Cabinet Decision No. 37/00 approved the off-set of J$13 billion of FINSAC debt held by the BOJ against the sterilized deposits of the government at BOJ. - Cabinet Decision No. 37/00 approved the restructuring of J$13.2 billion of FINSAC debt held by BOJ into cash interest paying Government bonds.

	- In the LSDP, para 13 (iv), Government committed FINSAC's use of all proceeds from recoveries of NPLs and non-core assets, net of operating expenses, to reduce its outstanding liabilities. **PROGRESS SINCE EFFECTIVENESS** - Government has used Bank funds for reduction in the stock of FINSAC debt in Union Bank and NCB. - FINSAC debt owed to the Ministry of Finance amounting to J$19.4 billion has been written off. - FINSAC has been using all proceeds from recoveries of NPLs and non-core assets, net of operating expenses, to reduce its outstanding liabilities.
Restructure/sell intervened banks.	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - Government provided signed sale agreement of Union Bank between FINSAC and RBTT dated November 1, 2000. - The following steps in the process of FINSAC acquiring an equity stake of more than 75% in NCB were completed: (i) The Minutes of NCB's Board Meeting held on September 5, 2000, approved the Schemes of Arrangements to restructure NCB's equity; (ii) The Minutes also report that shareholders have been informed of the Schemes; (iii) On October 3, 2000, the Jamaican Supreme Court, Suit No. E413 of 2000, directed NCB shareholders to meet on November 8, 2000 to consider, and vote on the Schemes, which were subsequently approved. - Government has committed to complete the additional legal and corporate steps necessary to ensure that FINSAC has more than 75% equity of NCB. - In a letter dated October 10, 2000, NCB advised FINSAC of new management appointments including (i) Managing Director (CEO), (ii) General Manager, Information Technology (CIO), and (iii) General Manager, Finance, Planning and Risk Management (CFO). - FINSAC provided a plan, satisfactory to the Bank, to address NCB's potential liquidity needs prior to conversion of FINSAC paper into cash-yielding instruments and a strategy to manage liquidity subsequent to the conversion. - On October 20, 2000, FINSAC submitted a strategy, satisfactory to the Bank, to manage NCB during the time in which NCB is under FINSAC's or Government's control. - In the LSDP, Government committed to present a plan, satisfactory to the Bank, to restructure NCB by March 31, 2001. **PROGRESS SINCE EFFECTIVENESS** - RBTT took over day-to-day management of Union Bank in mid-March 2001. All of FINSAC shares in RBTT have sold to RBTT. - FINSAC owns over 75 percent of the equity of NCB. The Government has submitted to Cabinet a sale offer from an international investor to buy the bank, which if approved, is expected to materialize by March 1, 2002.
Early disposition of maximum amount feasible of non-core assets held by FINSAC.	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - The FINSAC Board approved a plan acceptable to the Bank, for disposition/administration of FINSAC non-core assets as reflected in the Minutes of the Board held on August 31, 2000.

	PROGRESS SINCE EFFECTIVENESS - FINSAC is making best efforts to sell the remaining non-core assets in its possession. However, this process is proving difficult, especially after the events of September 11, 2001 in the US. The events caused a decline in investor interest.
Maximize expected recovery of NPLs	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - A copy of Ocwen's report on the diagnostic phase of NPL portfolio analysis was provided to the Bank prior to Board presentation. - On October 10, FINSAC provided the Bank with terms of reference for Ocwen, the firm hired to value and develop a strategy for sale of the NPL portfolio. - The FINSAC Meeting held on August 31, 2000 approved the plan acceptable to the Bank, for disposition/administration of NPLs. **PROGRESS SINCE EFFECTIVENESS** - NPLs have been packaged and readied for sale. However, the sale process was delayed particularly after the events of September 11, 2001 in the US that caused a decline in investor interest. By late December 2001, the Government has submitted to Cabinet a sale offer from an international investor to buy the entire portfolio under a share profits arrangement through a period of 2-3 years.
Restructuring/re-capitalization of LOJ	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - On September 15, 2000, the legal opinion of independent counsel was obtained to the effect that FINSAC had more than 75 percent of the voting rights of LOJ. - On November 1, 2000 the LOJ Board gave notice that a shareholders' meeting was to be convened on November 28, 2000 wherein authorization would have been given for FINSAC to obtain more than 75 percent of the equity of LOJ. FINSAC provided confirmation that said meeting was held whereby FINSAC acquired more than 75 percent of the equity of LOJ. - The agreement signed on October 26, 2000 between FINSAC and LOJ stipulated a plan, satisfactory to the Bank, to address LOJ's potential liquidity needs prior to conversion of FINSAC paper into cash-yielding instruments and, included a strategy to manage liquidity subsequent to the conversion has been submitted. - On October 12, 2000 a Memo from FINSAC outlines the operating strategy, satisfactory to the Bank to manage LOJ during the time in which LOJ is under FINSAC's or Government's control. - Government undertook all necessary legal and corporate steps that enabled FINSAC to obtain over 75% of the shares of LOJ, as reflected in the agreement between LOJ and FINSAC signed on October 26, 2000. **PROGRESS SINCE EFFECTIVENESS** - FINSAC has sold 76 percent of the equity of LOJ to Barbados Mutual Life Insurance Company.
Continue strengthening BOJ's supervisory and enforcement capabilities to ensure safe and	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - Cabinet approval was obtained in Cabinet Decision No. 38/00 dated October 23, 2000: to enhance BOJ's intervention powers to deal early

sound banks in Jamaica. Ensure coordination of BOJ's supervisory activities with other supervisory agencies	with financially distressed institutions; to approve the BOJ's "Supervisory Ladder of Enforcement" taking into account 1997 amendments; and create a Regulatory Policy Council, to coordinate activities of bank and non-bank supervisors; to develop and implement a crisis intervention policy; and to permit BOJ to share information on financial institutions with other regulatory/supervisory agencies. - On October 9, 2000 BOJ committed to undertake an independent assessment of Basle Core principles no later than second quarter of 2001. - In LSDP, para. 4, Government committed to make best efforts to obtain Parliamentary approval of above measures. **PROGRESS SINCE EFFECTIVENESS** - All actions approved by Cabinet have since been approved into law by Parliament and are being implemented. - BOJ undertook an independent assessment of its compliance with the Basle Core principles in the second quarter of 2001. The assessment concluded that Jamaica was largely compliant with the BCPs. Areas of weakness that were identified are being addressed.
Strengthen regulation and supervision of non-bank financial institutions.	**ACTIONS TAKEN BEFORE BOARD PRESENTATION** - Cabinet Decision No. 12/00 dated April 3, 2000 approved the establishment of the Financial Services Commission. - Cabinet Decision No. 24/00 dated July 17, 2000 approved the new Insurance Act. - In LSDP, para. 4, Government committed to make best efforts to obtain legislative approval of above measures. **PROGRESS SINCE EFFECTIVENESS** - The Financial Services Commission has been established and is operating. Most senior positions have been filled and capacity building is ongoing. - The new Insurance Act was approved by Parliament (November 27, 2001) and the Senate (December 7th). The regulations are expected to be ready for tabling in Parliament in early January. This will not require a debate and will therefore become effective as soon as they are gazetted.