



<b>1. Project Data:</b>		<b>Date Posted :</b> 02/12/2002	
<b>PROJ ID:</b> P071112		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Bank Restructuring & Debt Management	<b>Project Costs (US\$M)</b>	75	75
<b>Country:</b> Jamaica	<b>Loan/Credit (US\$M)</b>	75	75
<b>Sector(s):</b> Board: FSP - Banking (75%), Central government administration (14%), Non-compulsory pensions insurance and contractual (8%), General finance sector (3%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L7036			
	<b>Board Approval (FY)</b>		01
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2001	06/30/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Alice C. Galenson	Laurie Effron	Ruben Lamdany	OEDCR

**2. Project Objectives and Components**

**a. Objectives**

The loan's objective was to support the first stage of the government's Bank Restructuring and Debt Management Program, aimed at resolving the financial crisis that started in the mid -1990s and putting the large public sector debt on a declining, sustainable path. The program included resolution and restructuring of financial institutions, restructuring and management of the public debt arising from the resolution of the financial crisis, and regulatory and supervisory reforms to prevent future crises .

**b. Components**

Actions to be taken prior to Board presentation involved (i) the sale by the Financial Sector Adjustment Co . (FINSAC) of one bank and progress in restructuring, for eventual sale, the two remaining intervened institutions; (ii) a strategy to dispose of FINSAC's non-performing loans (NPL) and disposal of a significant fraction of its other assets; (iii) commitment to restructuring FINSAC debt and servicing the remaining FINSAC obligations; and (iv) substantial progress in strengthening the legal, regulatory and supervisory framework for the financial sector .

**c. Comments on Project Cost, Financing and Dates**

This loan was designed as the first of a series of single tranche adjustment operations under a programmatic approach. The government's program was also supported by IDB and CDB loans of US\$ 150 million and \$25 million respectively.

**3. Achievement of Relevant Objectives:**

The government reached concrete goals in all the major areas specified in the loan with actions that would be hard to reverse. (i) FINSAC sold its 99% share in Union Bank (though with delays and under less favorable terms than originally envisaged) and its 76% share in Life of Jamaica, and has submitted for Cabinet approval the sale of its 75% share of the restructured National Commercial Bank . (ii) FINSAC recovered about one-quarter of its NPL portfolio and has submitted to Cabinet the sale of its remaining NPL portfolio in bulk to an international investor . It also sold 7 hotels and expects to sell the remaining portfolio of commercial real estate by early 2002. (iii) The government took over all FINSAC liabilities; wrote-off/offset public sector and Bank of Jamaica (BOJ) debt, redeemed a portion with third parties, and converted debt outstanding into Treasury bonds, improving the profile of its debt . (iv) Legislation has been drafted, and in some cases approved by Cabinet, to empower the BOJ to intervene in distressed financial institutions without approval of the Finance Minister; amend bank secrecy provisions to permit exchange of information between regulatory agencies; and strengthen regulation and supervision by BOJ . An assessment of the BOJ by the IMF found it compliant with most of the Basle Core Principles for regulation and supervision. The authorities created the Financial Services Commission (FSC), with regulatory and supervisory powers over non-bank financial institutions, and established a Regulatory Policy Council to harmonize regulation and supervision between the FSC and the BOJ . They also revamped the legal, regulatory and supervisory framework of insurance companies and are improving pensions and securities regulations .

**4. Significant Outcomes/Impacts:**

It is too early to assess fully the success of the reforms in meeting longer -term objectives, such as enhancing the capacity to prevent future crises, and restoring growth .

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

The government had committed itself to ensuring that its overall public sector debt would be consistent with the base case scenario of the IMF's Staff Monitored Program (SMP), providing the macroeconomic underpinning for the government's program. However, for a number of reasons, including civil disturbances, flooding and the events of Sept. 11, the government was forced to ask the IMF to revise its SMP and request emergency lending from the Bank . In addition, restructuring of FINSAC's paper at the BOJ has not been completed .

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Highly Satisfactory	Highly Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

(i) Strong government commitment and ownership of the program --particularly in publicizing the strategy to internal and external constituencies--was critical to the success of its first phase . (ii) The choice of single tranche programmatic loans, building on the lessons of previous Bank experience with Jamaica, was key to restoring operational relations with the country by concentrating first on compliance with attainable short -term objectives and avoiding locking the client into an overly ambitious, politically sensitive, more rigid medium -term agenda. (iii) Close collaboration between the Bank and other IFIs allowed the Bank's more conservative views to be incorporated into the SMP and enabled the Bank to build on the work of the IDB .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR is comprehensive and persuasive .