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RESULTS OF INTERNATIONAL DEBT RELIEF IN JAMAICA

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CASE STUDY FOR THE IOB EVALUATION ON DUTCH DEBT RELIEF

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PREFACE

This report contains the findings of one of the eight country case studies that were undertaken in the context of an evaluation study of Dutch debt relief during the period 1990-1999, conducted by the Policy and Operations Evaluation Department (IOB) of the Netherlands' Ministry of Foreign Affairs. As the results of Dutch contributions to debt relief cannot be distinguished from the effects produced by contributions from other donors and creditors, the eight country studies analyse the results of the combined efforts of all actors.

The research was carried out – in close consultation with the chief consultant for the evaluation, Dr. A.G. Dijkstra – by Dr. E. Abdelgalil and W.J. Cornelissen of SEOR BV, a subsidiary company of Erasmus University, affiliated to the Faculty of Economics, who are responsible for the contents of this report. It is published in the series of IOB 'Working Documents', comprising consultant studies of interest to a wider public.

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ABBREVIATIONS

DPT	Diphtheria, Polio, Tetanus
EDT	Total Debt Stock
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
GDF	Global Development Finance
GDP	Gross Domestic Product
GOJ	Government of Jamaica
GNP	Gross National Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFI	International Finance Institutions
IMF	International Monetary Fund
INT	Interest Payments
ISI	Import Substitution Industrialisation
LAC	Latin American and the Caribbean
LDOD	Long-term Debt Outstanding and Disbursed
LMC	Lower Middle Income Countries
MDF	Multilateral Debt Fund
MGS	Imports of Goods & Services
MIMIC	Moderately Indebted Middle Income Country
NFI	Net Foreign Factor Income
NLG	Netherlands Guilder
ODA	Official Development Assistance
PC	Paris Club
PPG	Public and Publicly Guaranteed (debt)
RES	International Reserves
TDS	Total Debt Service
UNICEF	United Nations International Children Emergency Fund
USD	US Dollar
WB	World Bank
WDI	World Development Indicators
XGS	Exports of Goods & Services

SUMMARY AND CONCLUSIONS

This summary briefly answers the three main research questions that were asked at the beginning of the Terms of Reference for the country case studies (see Annex B).

Question I: Efficiency

To what extent were the political and financial interventions (the inputs) efficient in terms of outputs such as debt and debt service reduction and increases in imports and public expenditure?

In the early 1990s, the government of Jamaica sought debt relief from its external creditors in order to ease its payments difficulties. With the IMF extended arrangements in place, the government of Jamaica managed to obtain from its bilateral creditors the debt relief that was needed to close its foreign exchange gap. Debt relief modalities such as rescheduling of debt service payments, forgiveness of debt stock and debt service were used by creditors. There were indeed flow and stock effects of debt relief in the first half of the 1990s and the debt relief was additional to aid.

During the decade of the 1990s and in the presence of aid and debt relief, import disaggregation has shown that the share of consumer goods increased, as the shares of both raw materials and capital goods decreased. In the early 1990s, aid and debt relief have allowed higher public expenditure than otherwise would have been possible.

Question II: Effectiveness

To what extent were these inputs and outputs effective in producing desired outcomes such as improvement of debt sustainability, improvement of creditworthiness and investment?

Jamaica's external debt is sustainable in the long run if sustainability is judged by comparing the average interest rate on external debt with the growth rates of GNP, the exports and government tax revenue over a longer period of time. Using debt sustainability criteria of both the original HIPC initiative and the enhanced one, Jamaica's external debt is sustainable. During the decade of the 1990s, Jamaica's creditworthiness has improved when indicators such as the ratio of debt service paid to debt service due, inflows of private foreign capital and private creditors' loan disbursements are used.

Question III: Relevance

To what extent were these inputs, outputs and outcomes relevant by contributing to the longer-term impacts of economic growth and poverty reduction?

The record of Jamaica's real economic growth has been disappointing during the 1990s. Although the growth rate of real GDP was positive in the first half of the decade, it remained low. And it became even negative in the second half of the 1990s. Sectors such as manufacturing and construction experienced negative growth while other sectors such as agriculture, mining and services maintained positive growth. The GDP negative growth began in 1996 at the time of the financial sector crisis when domestic financial institutions ran into liquidity and solvency problems. In the absence of debt relief, the prospects of economic growth in the first half of the 1990s would have been adversely affected. In 1990, the foreign debt was unsustainable, and debt relief helped to smooth out external debt service so that actual debt service paid in the early 1990s was manageable.

Poverty was reduced during the decade of the 1990s, but the reduction of poverty is hardly attributable to the growth of the formal economy or the improvement of income distribution. The growth of the informal economy and disinflation were believed to be two important explanations for poverty reduction during that period. The impact of debt relief on poverty reduction is at best remote.

1 DEBT PROBLEM ANALYSIS: NATURE, CAUSES AND CONSEQUENCES

This chapter is introductory and intended to provide a background to the report. It shows how Jamaica's debt problem has developed from the earlier years till the beginning of the evaluation period, 1990-1999.

Jamaica is a moderately indebted middle-income country (MIMIC). Jamaica's debt problem dates back to the 1960s and 1970s. After its independence in 1962, Jamaica opted for a development strategy that was based on Import Substitution Industrialisation (ISI). Under the ISI, domestic manufacturing industries were sheltered from foreign competition by heavy trade restrictions such as tariffs, quotas and an overvalued exchange rate. On the other hand, agriculture, which was the source of foreign exchange for the country, was put at a disadvantage with the manufacturing sector and the subsidised food imports. Whatever success was realised in the manufacturing sector at that time, largely took place at the expense of agriculture. During 1970s, the world economy was in turmoil due to the oil price hike while the prices of primary exports were falling in the world market. The rising prices of its oil imports and the falling prices of Jamaica's exports, i.e. bauxite and sugar, resulted in adverse terms of trade. Internally, the lack of fiscal and monetary discipline in government policies led to severe inflationary pressures. By the late 1970s, it became obvious that the economic situation was going from bad to worse. Investment was declining, unemployment was high, exports were uncompetitive and foreign exchange reserves were depleted. In these circumstances, the International Monetary Fund (IMF) was called in for help in 1977 (Harrigan, 1991).

In July 1977, Jamaica concluded an agreement with the IMF under which the government undertook to replenish the country's foreign reserves, reduce the fiscal deficit, restrict domestic credit expansion and limit foreign borrowing. This agreement was later abrogated because Jamaica did not pass the December 1977 IMF performance test. In May 1978, a three-year Extended Fund Facility (EFF) agreement was signed with the IMF that called for the exchange rate unification and devaluation, phasing out and removal of subsidies and price controls, raising taxes, curtailment of government expenditure and the tightening of domestic credit. The government did not adhere to all the IMF conditions and negotiations with the IMF were broken off in March 1980. By the end of the 1970s, the Jamaican economy was in disarray and there was a dire need for sound economic policies that could put the economy back on the path of economic growth. An economic programme, supported by the IMF's EFF, was designed for the period 1981-1984; it aimed at restoring the internal and external balances. By 1983 it became clear that the targets set for the fiscal and the external account deficit were not being met and the EFF was cancelled after disagreements over the September 1983 performance test. During the period 1983-1985, the government of Jamaica followed a path of deep adjustments. These included, unifying the exchange rate, raising indirect taxes, reducing subsidies, divesting of public companies, and a tight monetary policy. These adjustments paid off and by January 1987, the government of Jamaica reached an agreement with the IMF as well as rescheduling arrangements with its bilateral and commercial creditors. During this period, the macroeconomic environment was characterised by relative stability, as can be seen from Table 1-1, but this did not last long. In September 1988, Hurricane Gilbert hit Jamaica and disrupted production in most economic sectors and thus hindered the ongoing recovery efforts. The impact of the hurricane and the political pressures before the 1989 general election slowed the pace of economic reform. The government failed to adhere to its fiscal reforms such as imposing a new consumption tax, increasing prices and removal of subsidies for food imports (Robinson, 1994).

As can be seen from Figure 1–1, the long-term outstanding debt (LDOD) was rising sharply from the late 1970s till the late 1980s. This is mainly because during that period Jamaica resorted increasingly to borrowing from bilateral and multilateral creditors in the context of stabilisation and structural adjustment lending. The figure also shows that arrears to creditors, especially to official ones, started to accumulate from the early 1980s. Jamaica's public and publicly guaranteed external debt (PPG), shown in Figure 1–2, follows more or less a similar path as that of the LDOD, especially during the period between the late 1970s and the late 1980s. In addition, the figure shows that Jamaica was getting more concessional credit from its bilateral creditors than from the multilateral ones. The bilateral concessional debt was rising throughout the 1980s whereas the multilateral one remained more or less stable during that period. Figure 1–3 shows that the PPG debt from official creditors was rising since 1975 while that from private creditors was stable during the decade of the 1980s.

The rise of PPG debt during the 1970s and the 1980s (see Figure 1–2), without achieving sufficient economic growth to service it, especially during the first half of the 1980s as can be seen from Table 1–1, led to repayment problems. Therefore, Jamaica had to resort to a series of debt rescheduling rounds in the Paris Club (PC) with its bilateral creditors during the 1980s (see Table 1–4). Jamaica's debt problem during the 1980s complicated the country's adjustment efforts in two ways. First, the fiscal implications of the debt service rendered the public sector policy response inflexible. Second, the policy bargaining position of the donors was weakened by the growing pressure to disburse in order to avoid the default of the country. The loans from the multilateral creditors, such as the IMF and the World Bank, were tied to the usual conditionality that Jamaica had to pursue stabilisation and adjustment policies that were intended to put the economy back on the track of sustainable economic growth. In addition, bilateral creditors' loans were granted in support of these policy reforms devised by the Fund and the Bank. Most of the time Jamaica has not implemented these policy reforms and when it did, it only followed the letter of these agreements but not their spirit (Harrigan, 1991).

As far as net transfers on debt¹ are concerned, Figure 1–4 shows that during the 1970s they were mostly positive during the first half, but negative in the second one. During the 1980s, they followed the same pattern, positive in the first half and negative in the second one. This latter trend was negative, because most of the loans that were contracted in the early 1980s fell due in the second half of the 1980s. Regarding the aggregate net transfers², since 1972 and up to 1984 aggregate net transfers have been below net transfers on debt, as can be seen from Figure 1–4. This can be explained by capital flight, that is, private investments were flowing out of the country due to the unconducive economic conditions prevailing in that period. On the other hand, they have been steadily above the net transfers on debt since the second half of the 1980s, which means that more FDI, portfolio equity flows and official grants have been flowing into the country. This can be seen as a vote of investors' confidence in the performance of the Jamaican economy during the late 1980s. During this latter period, and as can be seen from the figure, the net outflow of transfers on debt has been mitigated by the flows of private investment and official grants.

Figure 1–5 shows that Jamaica's export earnings, including income and remittances, were growing in the second half of the 1970s, falling in the first half of the 1980s and then rising again in the second. On the other hand, debt service was high in 1978, rather stable during the first half of the 1980s and relatively high in the second half.

¹ Net transfers on debt = Loan disbursements - debt service (i.e. principal repayments plus interest payments).

² Aggregate net transfers = Loan disbursements + foreign direct investment (FDI) + portfolio equity flows + official grants - (principal repayments + loan interest + FDI profits).

GNP and exports (both measured in current USD prices) in the second half of the 1970s and till 1989 are shown in Figure 1–6. As can be seen from the figure, GNP growth rate was negative in the late 1970s and positive during most of the 1980s, especially during the second half.

Table 1–1 shows some economic indicators for Jamaica during 1980-89. As can be seen from the table, the real growth rate of GDP was fluctuating, but was relatively good towards the end of the 1980s. Gross capital formation as a percentage of GDP was generally rising during the 1980s. During most of the 1980s, the net inflows of foreign direct investment (FDI) as a percentage of gross capital formation were negative. In the early 1980s, the growth rate of exports was negative, as was the case in 1987 and 1988.

With respect to Jamaica's social indicators, as shown in Table 1–3, life expectancy at birth increased from about 70 years in 1980 to about 72 years in 1987; during the same period infant mortality per thousand live births declined from about 33 to 27. The adult illiteracy rate declined from about 24% in 1980 to about 18% in 1989; and during the same period the immunisation of children under 12 months against DPT increased from 34% to 85% and against measles rose from 12% in 1982 to in 71% in 1989.

Table 1–2 gives Jamaica's debt indicators during the 1980s. The debt service-exports ratio was steadily rising in the first half of the decade, reached a maximum in 1986 and then started to fall towards the end of the 1980s. Both debt-exports and debt-GNP ratios followed a similar path. If the critical values of debt indicators developed by Cohen (1997) and the enhanced HIPC initiative of 1999 were used retrospectively to evaluate Jamaica's debt position at the end of the decade of the 1980s, then we find that it was not sustainable and could have negative effects on its economic growth³.

As a result, debt relief given during the 1990s can be expected to have had beneficial effects on the economy. This report evaluates the efficiency, effectiveness and impact of debt relief granted to Jamaica in the 1990s. The methodology that is followed in the preparation of this report is descriptive and quantitative analysis. The available data is presented in the form of tables and graphs to show trends of the main variables that are of relevance. Therefore, the results and the conclusions of the report are mainly based on the data. This renders these results and conclusions dependent on the quality of the data used.

As stated in the Terms of Reference for country case studies, the impact of Dutch debt relief cannot be separated from that of debt relief by other creditors. Therefore, this report deals with all debt relief that was received by Jamaica during the 1990s, and the Dutch debt relief is briefly dealt with in a separate section in chapter 2 of this report.

The rest of the report is divided into four chapters. Chapter 2 deals with the inputs of the debt relief, chapter 3 treats the outputs of the debt relief, chapter 4 discusses the outcomes of the debt relief and finally chapter 5, which assesses the impact of the debt relief.

³ For more elaboration on this point see chapter 4 on the outcomes of debt relief.

Table 1–1 Economic indicators, 1980-1989 (per cent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
GDP growth (annual %)	-5.8	2.5	1.3	2.3	-0.9	-4.6	1.6	7.8	2.9	6.8
Gross capital formation (annual % growth)	-23.1	21.2	9.0	1.9	-10.0	-1.1	-14.1	-11.7	18.4	21.1
Gross capital formation (% of GDP)	15.9	20.3	20.9	22.3	23.1	24.3	18.5	22.2	25.6	28.5
FDI, net inflows (million USD)	27.7	-11.5	-15.8	-18.7	12.2	-9.0	-4.6	53.4	-12.0	57.1
Inflation, consumer prices (annual %)	27.3	12.7	6.5	11.6	27.8	25.7	15.1	6.7	8.3	14.3
Unemployment, total (% of total labour force)	27.3	26.0	27.6	26.4	25.5	25.0	23.6	21.0	18.9	16.8
Exports of goods and services (annual % growth)	-6.2	-4.0	-11.0	9.4	17.7	6.1	13.0	-0.9	-2.5	9.1
Imports of goods and services (annual % growth)	-14.7	5.8	-4.3	6.1	18.3	21.6	-9.7	20.3	17.8	8.6
External balance on goods and services (% of GDP)	0.0	-8.6	-10.6	-7.3	-6.0	-9.8	3.2	0.4	-4.5	-9.5

Source: World Development Indicators (WDI) 2001.

Table 1–2 Debt indicators, 1980-1989 (per cent)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Debt service/Exports of goods and services	19.0	24.5	25.0	28.9	32.4	37.6	46.1	44.4	39.8	30.3
Interest/Exports of goods and services	10.8	9.7	13.5	16.4	20.7	21.2	19.8	16.7	13.6	10.9
Total debt/Exports of goods and services	129.9	148.0	197.8	251.5	264.1	302.0	288.1	279.9	246.6	214.7
Total debt/GNP	78.9	88.1	103.4	118.4	169.9	225.6	187.3	176.4	142.5	121.7

Source: Global Development Finance (GDF) 2001.

Table 1–3 Social indicators, 1980-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Illiteracy rate, adult total (% age 15 and above)	24.1	23.3	22.5	21.8	21.1	20.6	20.0	19.4	19.0	18.5
Illiteracy rate, youth total (% age 15-24)	12.0	11.6	11.1	10.8	10.5	10.4	10.0	9.7	9.4	9.1
Immunisation, DPT (% of children under 12 months)	34.0	39.0	34.0	58.0	57.0	60.0	74.0	81.0	82.0	85.0
Immunisation, measles (% of children under 12 months)	..	..	12.0	15.0	60.0	64.0	36.0	62.0	68.0	71.0
Life expectancy at birth, total (years)	70.7	..	71.2	..	..	71.9	..	72.4	..	..
Mortality rate, infant (per 1,000 live births)	33.4	..	31.0	..	..	28.6	..	27.0	..	..
Population growth (annual %)	1.4	1.4	1.7	1.8	1.7	1.4	1.1	0.6	0.2	0.8
School enrolment, pre-primary (% gross)	70.0	73.2	77.8	75.2	74.0	76.7	74.9	82.4	81.2	80.3
School enrolment, primary (% gross)	103.1	105.5	105.7	104.4	102.5	100.5	101.4	99.0	100.6	100.8
School enrolment, secondary (% gross)	66.7	63.3	63.2	60.7	61.2	59.4	61.0	63.5	63.4	63.7
School enrolment, tertiary (% gross)	6.7	6.2	5.6	..	..	4.4	4.8	4.9	5.1	6.0

Source: World Development Indicators (WDI) 2001.

Table 1–4 Debt treatment by Paris Club during the 1980s (USD million)

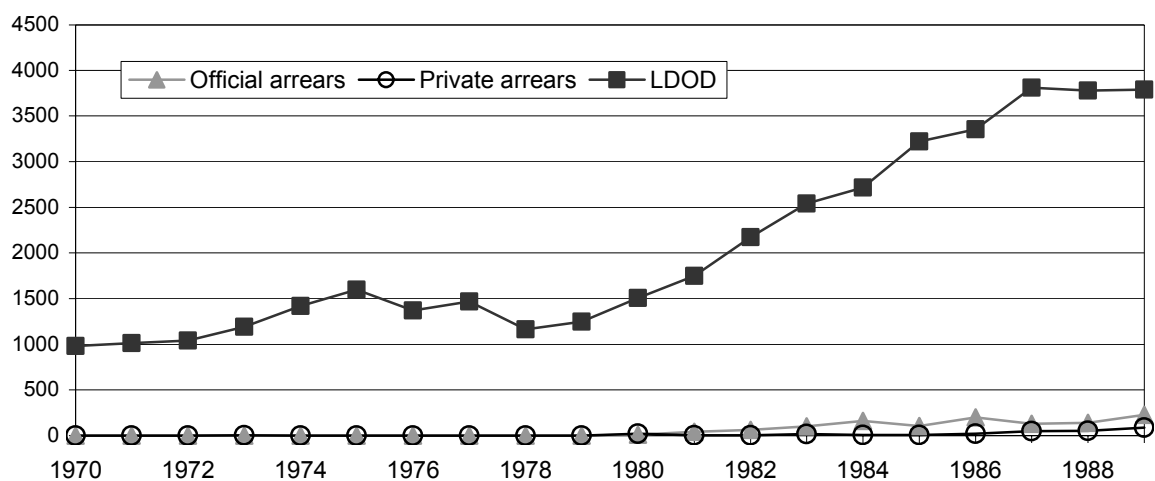
date	amount	type	status	participating creditors
July 16, 1984	207	classic terms ¹	Fully repaid	CA, FR, GE, JA, NE, NO, UK, US, SW, TB
July 19, 1985	67	classic terms	Fully repaid	CA, FR, GE, JA, NE, NO, UK, US
March 5, 1987	81	classic terms	Fully repaid	CA, FR, GE, JA, NE, NO, UK, US, IT
October 24, 1988	146	classic terms	Fully repaid	CA, FR, GE, JA, NE, NO, UK, US, IT

Source: Paris Club web Site (<http://www.clubdeparis.org>).

CA= Canada, FR= France, GE= Germany, IT= Italy, JA= Japan, NE= Netherlands, NO= Norway.
Sw= Switzerland, TB= Trinidad and Tobago, UK= United Kingdom, US= United States.

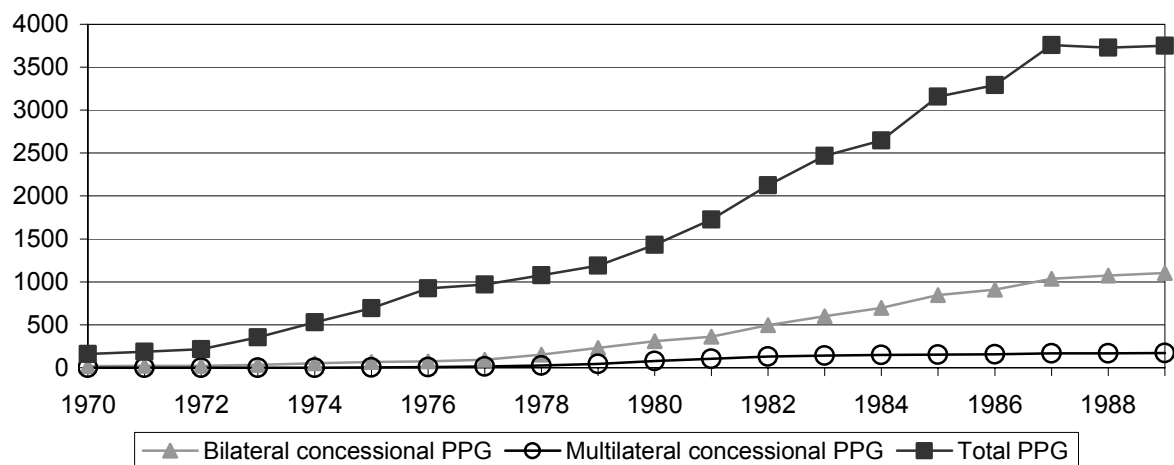
¹. Classic terms are the standard terms applied to a debtor country coming to the Paris Club. Any country which has an appropriate programme with the IMF that shows the need for Paris Club debt relief may benefit from classic terms. Credits (whether ODA or non-ODA) are rescheduled at the appropriate market rate with a repayment profile negotiated on a case-by-case basis.

Figure 1–1 LDOD stock and arrears 1970 – 1989 (USD million)



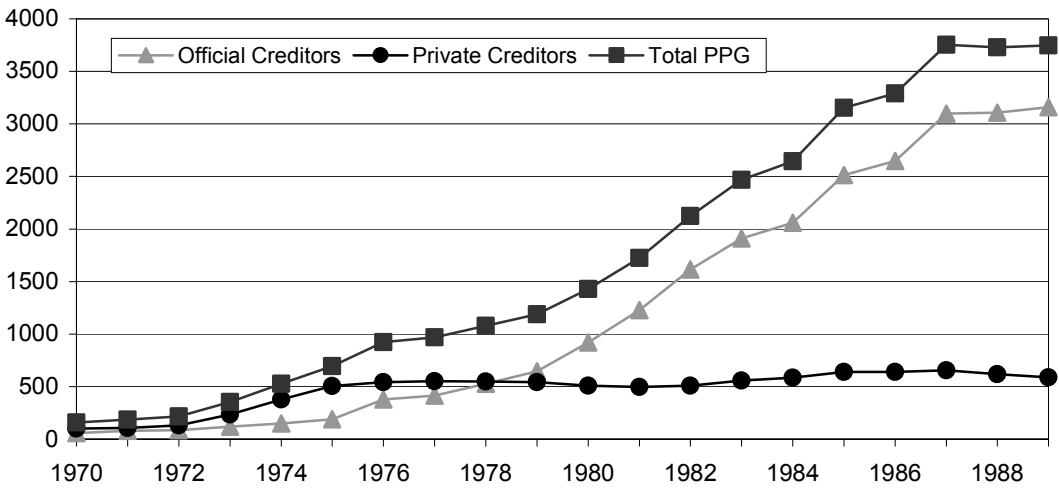
Source: GDF 2001

Figure 1–2 Public and Publicly Guaranteed (PPG) debt 1970 – 1989 (USD million)



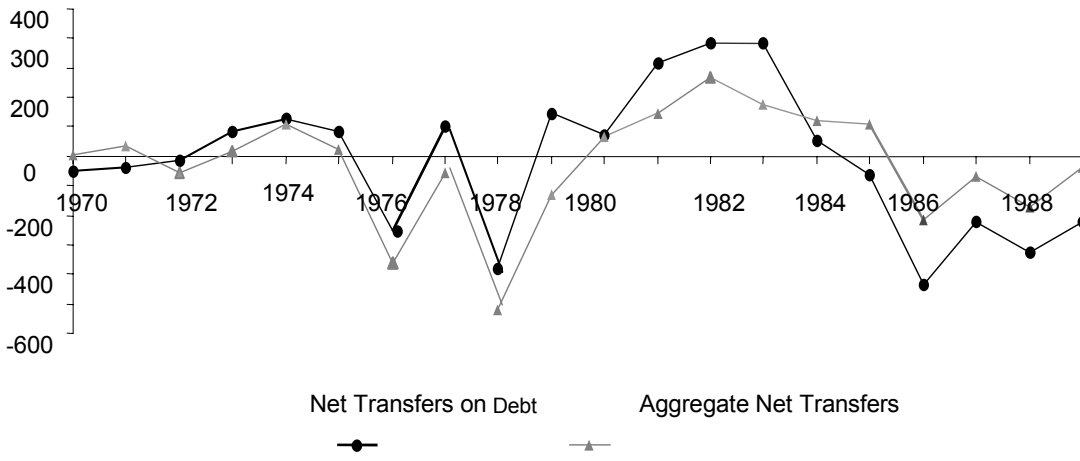
Source: GDF 2001.

Figure 1–3 PPG debt by creditor category 1970 – 1989 (USD million)



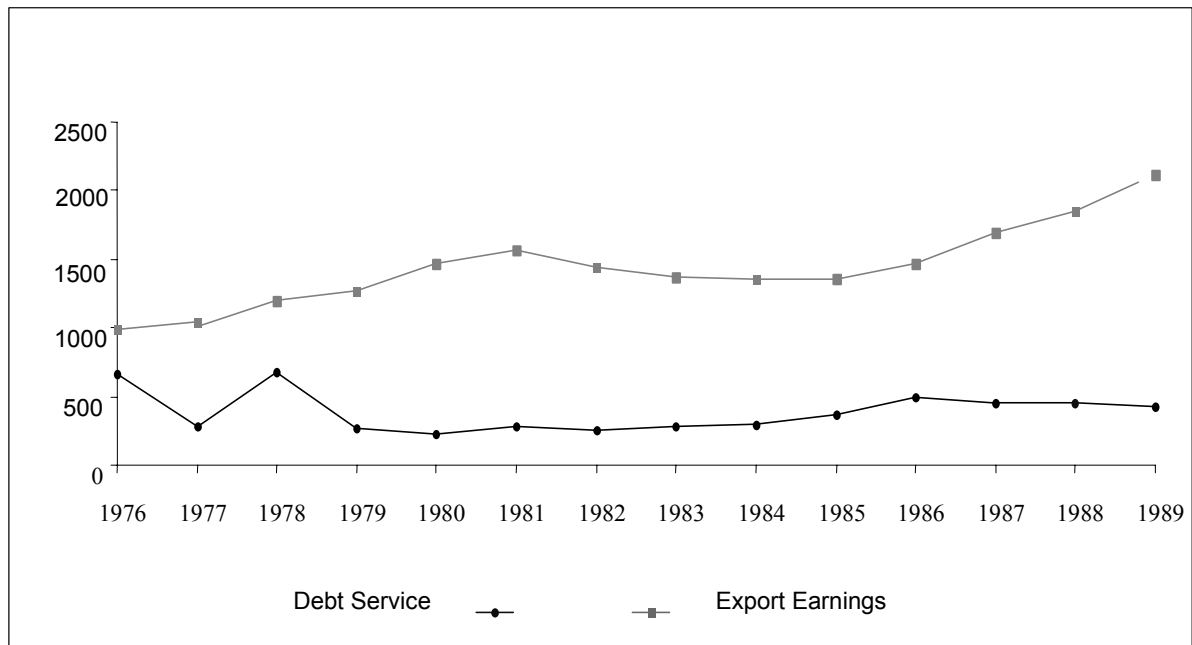
Source: GDF 2001.

Figure 1–4 Net transfers on debt and aggregate net transfers 1970 – 1989 (USD million)



Source: GDF 2001.

Figure 1-5 Debt service and export earnings 1976 – 1989 (USD million)



Source: GDF 2001.

Figure 1-6 Annual growth rate of GNP and exports (per cent)



Source: GDF 2001.

2 INPUTS: AMOUNTS AND MODALITIES OF DEBT RELIEF 1990-1999

This chapter discusses the inputs to the debt relief process in terms of modalities, funding and conditionality.

During the 1990s, various modalities of debt relief were used for different types of debt. Rescheduling of debt service payments, buyback of debt titles, debt-for-equity/bonds swaps were employed for commercial debt. Restructuring and rescheduling of the debt stock and debt service, partial or total forgiveness of debt stock and debt conversion schemes were used by bilateral creditors. For multilateral debt, concessional lending and the payment of debt service obligations through, among other measures, a Multilateral Debt Fund (MDF) were tried. The two HIPC initiatives have been put forward to reduce the stock of debt of the so-called Heavily Indebted Poor Countries (HIPCs). Jamaica was not eligible for an MDF or HIPC, because of its status as a Moderately Indebted Middle Income Country (MIMIC).

The debt relief⁴ granted to Jamaica during the period 1990-1999, can be seen from Table 2-2 and Figure 2-2. The figure shows that debt relief is concentrated in the first half of the decade. Especially the years 1991 and 1993 have witnessed major debt forgiveness. By the late 1990s, the gap between debt service due and paid had been narrowed, which indicates that Jamaica's was increasingly servicing its debt following the debt relief it got in the early 1990s (see Figure 2-2). As Figure 2-3 shows, Jamaica's arrears were mostly to official creditors and were falling towards the end of the 1990s. Table 2.3 shows that the principal forgiven was about 8% of the debt stock in 1991 and the principal rescheduled about 2% during the first half of the 1990s. Debt stock reduction was about 1% in the early 1990s and the debt stock rescheduled was about 5% in 1990. The highest debt relief was received in the years 1990 and 1991, amounting to about 13% and 12% of the debt stock respectively. It is also clear from the table that debt relief received by Jamaica was from official creditors.

Jamaica's PPG debt structure is such that most of it was owed to official creditors and a minor part was owed to the private creditors. See Table 2-4 for Jamaica's debt that was owed to official creditors, both multilaterals and bilaterals, and to private creditors during the decade of the 1990s. The debt profile of Jamaica did not qualify it to benefit from the Brady Plan which targeted the middle-income countries that were heavily indebted to commercial banks (GOJ, 1993). Consequently, the bulk of Jamaica's debt relief had to come from its official (bilateral) creditors.

As we have seen in Table 1-4, Jamaica had four rounds of debt treatment in Paris Club: in 1984, 1985, 1987 and 1988. This series continued in the early 1990s, namely in 1990, 1991 and 1993. The following section elaborates on Jamaica's debt treatment in these three rounds of Paris Club.

⁴ Defined here as rescheduling and forgiveness.

2.1 Paris Club debt relief to Jamaica 1990-1999

On 26 April 1990, Jamaica and the Paris Club (PC) Participating Creditor Countries⁵ reached a debt relief agreement for the treatment of USD 178 million under the classic terms⁶. According to the agreement, 100 per cent of the amounts of the principal and interest due from 1 December 1989 up to 31 May 1991 and not paid would be rescheduled. The repayment would be made in 10 equal and successive semi-annual payments, the first of which fell due on 29 February 1996 and the last one on 31 August 2000 (PC, 1990). The amount of debt treated under this agreement is fully repaid.

On 19 July 1991, Jamaica reached a debt relief agreement with the PC Participating Creditor Countries for the treatment of USD 125 million under Houston terms⁷. For the official development aid loans, it was agreed that 100 per cent of the amounts of principal and interests due from 1 June 1991 up to 30 June 1992 and not paid would be rescheduled or refinanced. The repayment by Jamaica of the corresponding sums will be made in 20 equal and successive semi-annual payments, the first of which to be made on 15 June 2002 and the final payment will be made on 15 December 2011. Regarding other credits, the same terms apply to them, but the repayment will be made in 18 equal and successive semi-annual payments, the first of which would be made on 15 June 1998 and the final payment will be made on 15 December 2006. It was also agreed that each creditor country might, on voluntary basis, undertake limited debt-for-nature, debt-for-aid, debt-for-equity swaps or other local currency debt swaps (PC, 1991). This debt treatment is still active.

On 25 January 1993, Jamaica and the PC Participating Creditor Countries concluded a debt relief agreement for the treatment of USD 291 million under Houston terms. It was agreed that 100 per cent of the amounts of principal and interest due from 1 October 1992 up to 30 September 1995 and not paid would be rescheduled or refinanced. The repayment of the official development aid loans will be made in 20 equal and successive semi-annual payments, the first of which will be made on 30 September 2004 and the final one on 31 March 2009. The repayment of the other credits will be made in 18 equal and successive semi-annual payments, the first payment on 30 September 2000 and the final on 31 March 2009. In addition, the government of each creditor country may sell claims or exchange them in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps (PC, 1993). This debt treatment is still active.

The government of Jamaica has decided not to seek further rescheduling from its PC creditors beyond 30 September 1995 (see Table 3–5) and the 1993 arrangement is meant to be an exit mechanism. Jamaica's debt management strategy has run along two tracks. In the short term, it seeks to obtain interim cash relief on its debt service from official bilateral creditors, which it did. In the medium and long terms, it intends to reduce its debt and debt service to sustainable levels. The intention of the government is to reduce its external debt by borrowing less, borrowing on concessional terms, seeking debt forgiveness, conversion and swaps (GOJ, 1993).

In concluding these debt relief agreements with Jamaica, the Club members stressed the importance of the implementation of the measures of adjustment in the economic and

⁵ These were Canada, France, Germany, Italy, Japan, Netherlands, Norway, U. K and U.S.A.

⁶ Classic terms are the standard terms applied to countries that have programmes with the IMF and show the need for Paris Club debt relief. Credits are rescheduled at the appropriate market rate with a repayment profile negotiated on a case-by-case basis.

⁷ Houston terms is a new debt treatment introduced in September 1990 for the treatment of the debt of the lower middle-income countries, having more enhancements than the classic terms. Non-ODA repayment periods are lengthened to or beyond 15 years and ODA repayment periods are lengthened up to 20 years with a maximum of 10-year grace; ODA credits are rescheduled at a concessional rate; debt swaps can be conducted on a bilateral and voluntary basis.

financial programmes undertaken by Jamaica and the continuation of the extended arrangements with the IMF. They emphasised the revitalisation of the productive sector of the economy and improvement of public finances and foreign exchange management. The debt relief is granted with the objective of making a positive contribution to the solution of Jamaica's external payments difficulties.

2.2 Dutch Debt Relief to Jamaica 1990-1999

In the context of the agreement of 26 April 1990 between Jamaica and the Paris Club, which called for the rescheduling of about USD 157 million, Jamaica and the Netherlands concluded an agreement in October 1990 for the rescheduling of NLG 17.671 million (about USD 10.4 million); in Table 2—1a this refers to the sum of the rescheduling of interest and principal in 1990. These were consolidated loans that were extended either to the government of Jamaica or to public sector companies and guaranteed by the government of Jamaica before October 1983. According to the agreement, 100 per cent of the interest and principal falling due during the period 1 December 1989 and 31 May 1991 was rescheduled. The repayment of the first instalment, out of the 23 consecutive instalments, would be made on 31 January 1999.

The different amounts and modalities of the Dutch debt relief to Jamaica are shown in Table 2—1a. As can be seen from the table, Dutch debt relief is concentrated in the first half of the 1990s and the modalities range from consolidation (rescheduling of interest and principal), forgiveness, of both principal and debt service, to debt buyback.

Table 2—1a Modalities of Dutch debt relief during the 1990s ⁽¹⁾ (NLG million)

	1990	1991	1992	1993	1994	1995
Debt service forgiveness		10.400	7.016 ⁽²⁾	13.791 ⁽³⁾	12.975	13.741
Interest		2.400	2.197	5.123	4.690	4.491
Amortisation		8.000	4.819	8.668	8.285	9.250
Principal forgiveness		14.800		8.480		17.663 ⁽⁴⁾
Rescheduling	17.671 ⁽²⁾					
Interest	6.601					
Principal	11.070					
Debt for children initiative ⁽⁵⁾		5.000				
Total	17.671	30.200	7.016	22.271	12.975	31.404

Source: Ministry of Foreign Affairs, various official documents.

(1) Jamaica did not receive Dutch debt relief beyond 1995, according to the official figures.

(2) Paris Club debt treatment.

(3) According to the Ministry of Foreign Affairs documents the forgiveness exceeded that of Jamaica's 7th agreement with PC in January 1993, as a support for the new democratic government of Jamaica at that time.

(4) This amount formed part of disbursements for the forgiveness of principals to various countries (end of year exercise).

(5) Debt swap.

The Dutch initiative of debt relief for children (a debt swap) was intended to assist UNICEF's ongoing programmes for children and women. The Dutch contribution went to three areas of intervention during the period 1991-1994: primary health care, a women and development programme, and children in especially difficult circumstances. This is part of a debt relief for children initiative by UNICEF as a means to reduce the external debt of UNICEF's member states and at the same time raising additional local funds for social sector programmes. In 1998 the Dutch government declined to approve bilateral debt relief for Jamaica to the amount of NLG 13.2 million because Jamaica did not reach an agreement with the

multilateral financial institutions such as the IMF, World Bank and the Inter-American Development Bank.

All loans, for which the Dutch government granted debt relief to Jamaica, were bilateral aid loans. Those loans had mainly been used for the purchase of goods and services, balance of payments support and for financing projects.

There are various stated motives for the Dutch debt relief to Jamaica: Jamaica's conclusion of agreements with the IMF; the vulnerability of the Jamaican economy to external shocks; poverty; seriousness of the debt situation; debt service obligations straining the government budget; implementation of structural adjustment programmes; and the quality of the macroeconomic policies.

The stated objectives of the debt relief range from restoration of Jamaica's relations with the International Financial Institutions (IFI), sectoral development, and the improvement of the debt and macroeconomic situation.

It is difficult to tell how Dutch debt relief to Jamaica compares to the debt relief it got from other bilateral creditors. An alternative way of approaching this is by looking at Jamaica's debt service payments to its creditors. Table 2.1b presents Jamaica's medium and long-term debt service payments to its commercial and bilateral creditors that were affected by the January 1993 request for debt relief. Although it is not exactly known how much of these debt service payments were forgiven/rescheduled, it gives an idea of the relative position of the debt service payments to the Netherlands vis-à-vis other OECD-bilateral creditors. In absolute terms, debt service payments to the Netherlands rank second among OECD-bilateral creditors in 1995/96, third in 1994/95 and 1993/94 and fourth in 1992/93.

Table 2–1b Jamaica's debt service payments affected by 1993 requested debt relief (USD million)

	1992/93			1993/94			1994/95			1995/1996		
	Prin.	Int.	Tot.	Prin.	Int.	Tot.	Prin.	Int.	Tot.	Prin.	Int.	Tot.
Affected debt service	99.67	29.67	129.34	90.68	26.92	117.60	89.28	23.88	113.15	51.04	10.78	61.82
Commercial Banks	10.22	0.00	10.22	8.76	0.00	8.76	10.76	0.00	10.76	0.00	0.00	0.00
Bilateral-OECD	74.35	29.67	104.02	66.82	26.92	93.74	64.42	23.88	88.29	36.94	10.78	47.72
Canada	6.70	2.38	9.08	4.20	1.65	5.85	3.93	1.23	5.16	2.38	0.40	2.78
France	2.96	2.36	5.32	2.25	1.78	4.03	2.16	1.46	3.62	1.56	0.60	2.16
Germany	4.20	1.61	5.81	3.93	1.61	5.54	5.12	1.57	6.69	2.48	0.68	3.16
Italy	2.71	0.95	3.66	1.62	0.92	2.54	2.10	0.78	2.88	1.50	0.41	1.91
Japan	2.35	0.78	3.13	1.85	0.69	2.54	1.62	0.57	2.19	0.77	0.21	0.98
Netherlands	4.85	2.93	7.78	4.85	2.90	7.75	4.85	2.84	7.69	4.08	1.68	5.76
Norway	2.99	1.80	4.79	2.59	1.51	4.10	3.39	1.36	4.75	1.94	0.56	2.50
United Kingdom	9.92	3.36	13.28	10.05	4.00	14.05	8.77	3.64	12.41	3.94	1.51	5.45
United States	37.67	13.50	51.17	35.48	11.86	47.34	32.48	10.43	42.91	18.29	4.73	23.02
Bilateral non-OECD	15.10	0.00	15.10	15.10	0.00	15.10	14.10	0.00	14.10	14.10	0.00	14.10
Venezuela	15.10	0.00	15.10	15.10	0.00	15.10	14.10	0.00	14.10	14.10	0.00	14.10

Source: Government of Jamaica (1993) "Memorandum to Paris Club: Economic situation and request for debt relief", Kingston, January 1993.

Prin. is principal, Int. is interest and Tot. is total.

2.3 Additionality and conditions of debt relief

Table 4—2 shows that disbursements have fallen in 1999 as compared to their levels in the early 1990s. It also indicates that net transfers on debt have been negative during the decade. On the other hand, total debt service payments have risen in 1999 as compared to their early 1990s.

As Table 4—3 shows, the net resource flows⁸ have increased by an annual average rate of about 3.7 per cent between 1990 and 1999. These net resource flows are mainly foreign direct investment, with no or negligible portfolio equity flows. The grants have been falling by an annual average rate of about 16 percent between 1990 and 1999. On the other hand, the net flows on long-term debt are mostly negative during the 1990s, indicating a net outflow. Regarding net transfers, the net official transfers are mostly negative while the private ones are mostly positive during the period 1990-1999.

As far as the question of additionality is concerned, Figure 2—1 suggests that there has indeed been additionality, that is, debt relief is additional to other inflows. As the figure shows, debt relief and aid (aid is defined here as grants plus IDA loans⁹) move together at times when there are debt relief agreements with the PC, that is, in 1990, 1991 and 1993. As can be seen from the figure, there are more aid flows in addition to debt relief in these three years.

With respect to the conditions attached to the debt relief, an economic programme covering the period June 1991 - September 1992 and supported by an IMF standby arrangement was adopted. The programme aimed at reducing inflation and achieving exchange rate stability through demand management policies, with the ultimate objective of improving economic growth in the medium term. Another medium term economic programme covering the period October 1992- September 1995 and supported by an extended Fund Facility was adopted. The programme was intended to eliminate over regulation and excessive state intervention with the ultimate objective of moderating inflation, attaining a viable balance of payments position and improving the growth performance of the economy. In addition, special emphasis was laid on environmental protection and poverty alleviation. Forestry, agriculture, water management and development of protected areas were given priority to enhance environmental protection in these areas. A social safety net was established for the protection of the poor section of the population during the process of economic restructuring and adjustment.

The government of Jamaica sought help from external sources in support of its medium term economic programmes that aimed to promote macroeconomic stability, strengthen export competitiveness and accelerate the process of liberalisation and deregulation the economy. With the IMF extended arrangements in place, the government of Jamaica managed to get from its bilateral creditors the debt relief needed to close its foreign exchange gap.

⁸ Net resource flows = net flows on long term debt (excluding IMF) + net foreign direct investment + portfolio equity flows + official grants (excluding technical co-operation grants).

⁹ Jamaica does not qualify for IDA loans.

Table 2–2 Debt relief 1989-1999 (USD million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Interest forgiven	0.0	0.5	10.6	3.8	3.3	2.8	0.0	0.0	0.0	0.0	0.0
Interest rescheduled (capitalised)	17.7	54.5	34.3	35.5	24.1	29.8	16.5	0.0	0.0	0.0	0.0
Interest rescheduled, official	16.7	53.6	33.7	35.1	23.9	29.7	16.4	0.0	0.0	0.0	0.0
Interest rescheduled, private	1.0	0.9	0.6	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Principal forgiven	0.0	0.1	297.7	7.1	100.1	5.9	0.0	0.0	0.0	0.0	7.5
Principal rescheduled	59.1	99.4	72.5	95.5	84.2	75.6	88.0	0.0	0.0	0.0	0.0
Principal rescheduled, official	55.9	96.2	69.5	92.7	82.4	74.4	87.1	0.0	0.0	0.0	0.0
Principal rescheduled, private	3.2	3.2	3.0	2.8	1.8	1.2	0.8	0.0	0.0	0.0	0.0
Debt stock reduction	25.0	24.4	43.5	14.2	2.2	15.5	0.0	0.0	0.0	0.0	0.0
Debt stock rescheduled	0.0	314.0	0.0	0.0	40.4	0.0	0.0	0.0	0.0	0.0	0.0

Source: GDF 2001.

Table 2–3 Ratios of forgiveness and rescheduling to debt stock (LDOD)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Interest forgiven	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest rescheduled (capitalised)	0.00	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Interest rescheduled, official	0.00	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00
Interest rescheduled, private	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Principal forgiven	0.00	0.00	0.08	0.00	0.03	0.00	0.00	0.00	0.00	0.00	0.00
Principal rescheduled	0.02	0.03	0.02	0.03	0.02	0.02	0.02	0.00	0.00	0.00	0.00
Principal rescheduled, official	0.01	0.02	0.02	0.03	0.02	0.02	0.02	0.00	0.00	0.00	0.00
Principal rescheduled, private	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt stock reduction	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt stock rescheduled	0.00	0.08	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00

Source: GDF 2001.

Table 2–4 PPG debt 1989-1999 (USD million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Official creditors	3159.6	3409.2	3271.1	3152.4	3047.9	3092.2	3085.6	2795.1	2412.7	2362.3	2249.8
Multilateral	1092.2	1167.7	1181.1	1117.0	1149.0	1181.4	1209.3	1100.4	984.1	996.1	1014.3
Bilateral	2067.4	2241.4	2090.0	2035.4	1898.9	1910.8	1876.3	1694.7	1428.5	1366.2	1235.5
Private creditors	587.3	527.6	441.4	411.3	404.8	345.8	323.6	339.1	511.1	741.8	654.8
Total	3746.9	3936.8	3712.5	3563.6	3452.7	3438.0	3409.2	3134.2	2923.7	3104.0	2904.6

Source: GDF 2001.

Figure 2—1 Debt relief and regular aid 1989 – 1999 (USD million)

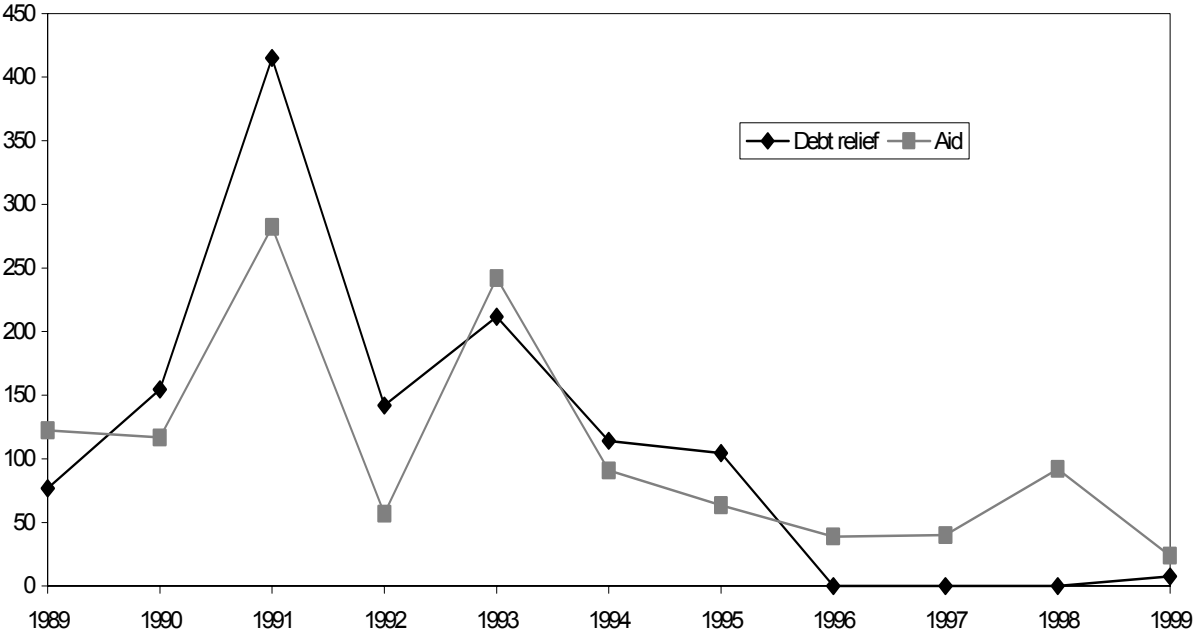
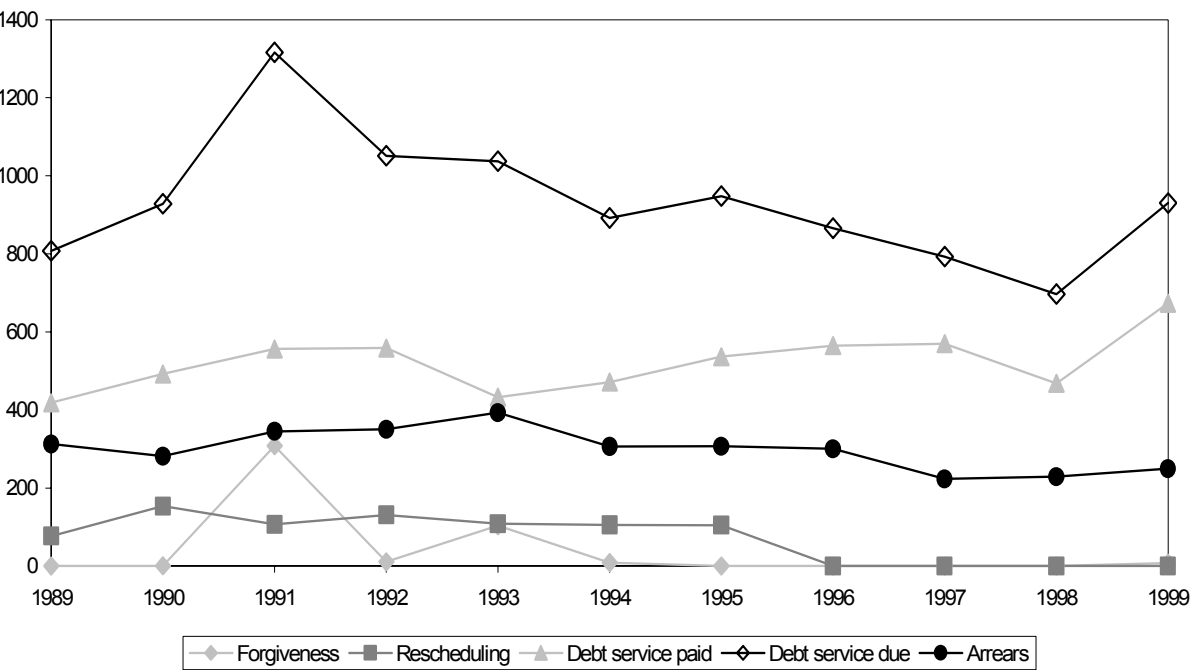
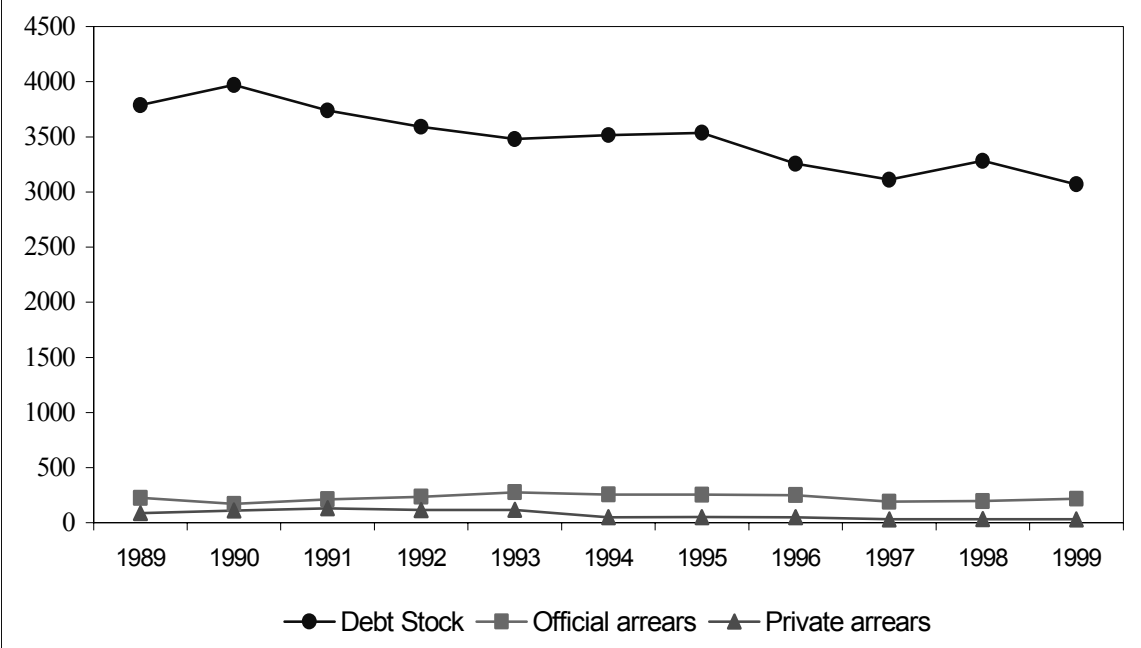


Figure 2—2 Debt service, rescheduling, forgiveness and arrears 1989 – 1999 (USD million)



Source: GDF 2001.

Figure 2-3 LDOD debt stock and arrears 1989 - 1999 (USD million)



3 OUTPUTS OF DEBT RELIEF

This chapter is intended to establish the possible flow and stock effects¹⁰ of debt relief. In other words, whether the chosen debt relief modalities have reduced the debt burden, that is, reduction of stock of debt and the actual debt service paid. In addition, whether the debt relief has changed government policies.

3.1 The stock effect

Regarding the stock effect of debt relief, the LDOD stock of debt was falling during the decade of the 1990s, as can be seen from Figure 3—5. On the other hand, Figure 3—6 shows that the debt service paid was rising during the 1990s, with the exception of 1993 and 1998. The percentage of debt service paid to debt service due, as shown in Figure 3—3, increased from about 53 per cent in 1990 to about 72 per cent in 1999 and its general trend was rising throughout the 1990s, except for 1991 and 1993 which were the years that Jamaica received debt relief from in Paris Club. This indicates that Jamaica's ability to repay its external debt increased significantly during the 1990s, especially in the second half of the decade.

As Table 3—4 shows, debt forgiveness (including debt stock reduction) was concentrated on the first half of the 1990s. The years 1991 and 1993 witnessed major debt forgiveness, the first amounted to about 9% of the LDOD debt stock and the second to about 3%. For the other years, forgiveness was not that significant. It is clear that the debt relief of the first half of the 1990s had a stock effect.

3.2 The flow effect

The actual debt service paid would have been more in the absence of debt relief, that is, debt relief reduced debt service paid. Also, it reduced debt service due, as can be seen from the Figure 2—2. For the years 1991 and 1993 specifically, Figure 3—3 shows that the ratio of forgiveness to debt service due has increased and the ratio of debt service paid to debt service due has fallen. This is due to the debt relief agreements with the member countries of the PC in these two years.

During the 1990s, there was no inverse relationship between arrears accumulation and debt relief, i.e. rescheduling and forgiveness, as Figure 3—7 shows. This suggests that most of the debt service would have been paid back in the absence of debt relief. Thus, the debt relief during the first half of the 1990s had a flow effect.

Figure 3—2 shows the debt service on public and publicly guaranteed (PPG) debt by creditor. The level of debt service by creditor follows from the structure of Jamaica's debt, which is predominantly owed to official creditors. The service of multilateral debt is consistent over time with no sharp fluctuations, unlike that of bilateral and private debt. This shows that arrears accumulation and rescheduling is obtained from bilateral and private creditors. The fall in bilateral debt service in the first half of the 1990s is due to the fact that Jamaica concluded debt-rescheduling agreements with its PC creditors during that period, especially in 1991 and 1993 as can be seen from the figure. And its rise in the second half of the decade can be explained by the fact that the rescheduled debt fell due late in the 1990s.

As far as bailing out is concerned, it is difficult to say precisely who bailed out whom. This is because we need to establish that Jamaica used directly the money it got from one group of creditors to pay back another, and show that Jamaica could not have paid back the second group of creditors without the money of the first group. Nevertheless, figure 3.1 which gives

¹⁰ The stock effect of debt relief is that it reduces the net present value of the debt stock. The flow effect of debt relief is that it reduces the actual debt service, i.e. debt flows.

the net transfers on debt by creditor, can give some indication of bailing out. During the first half of the 1990s, the figure shows that the net transfers on debt from bilateral creditors were positive while those from multilateral and private creditors were negative. During the second half of the 1990s, the net transfers on debt by private creditors were positive while those from bilateral and multilateral creditors were negative. Generally speaking, the figure gives the indication that the multilateral creditors are the ones who were being bailed out during the whole decade of the 1990s. This is because their net transfers on debt were negative throughout the 1990s, which means that their loan disbursements were less than the debt service they received. Also, their net transfers on debt were less fluctuating than those of the bilateral and private creditors.

3.3 Conditionality

During the early 1990s, debt relief was given in support of the IMF and World Bank stabilisation and structural adjustment policies. So debt relief was tied to the usual conditionality that Jamaica had to pursue stabilisation and adjustment policies that were intended to put the economy back on the track of sustainable economic growth. At some times Jamaica has not implemented these policy reforms devised by the Fund and the Bank. At other times it carried them out, although it then more followed the letter of these agreements than their spirit. The policy reforms that were partially implemented in the first half of the 1990s are in areas such as trade and exchange rate liberalisation, privatisation, removal of price controls and subsidies, reform of the tax system and liberalisation of the financial system. Since the implementation of these reforms is not complete, especially the liberalisation of the financial sector, this sector underwent a deep crisis in the second half of the 1990s. This financial distress had negative consequences for economic growth during the second half of the 1990s (World Bank, 2000).

3.4 Effects on balance of payments

In the early 1990s, imports disaggregation shows that the share of capital goods in total imports was relatively high as compared to the late 1990s. On the other hand, the share of consumer goods went in the opposite direction, relatively low in the early 1990s and relatively high in the late 1990s, as can be seen from Table 3—3. It is likely that the aid and debt relief of the early 1990s made it possible to import more capital goods relative to the other types of imports. Another possibility is that with the economic reforms taking full effect towards the end of the 1990s, the composition of imports has changed in favour of consumer goods and at the expense of capital goods due to lifting of imports restrictions.

3.5 Effects on government accounts

Table 3—1 shows that central government current expenditure as a percentage of GDP was relatively low in the first half of the decade as compared to the second half, and the same applies for the interest payments. Although interest payments on foreign debt as percentage of GDP decreased, those on domestic debt increased (see chapter 5 for the origin of the increase in domestic debt). Capital expenditure was high in the years 1990 and 1991 relative to the years 1998 and 1999. On the other hand, grants were relatively low in the late 1990s, but rather high in the early 1990s. Since there was a flow effect from debt relief (debt service would have been paid anyway) and as debt relief was additional to aid, it can be concluded that debt relief and aid have allowed higher government expenditure in the early 1990s than otherwise would have been possible.

3.6 Conclusions

The main conclusions of this chapter are that there were indeed flow and stock effects of debt relief in the first half of the 1990s. Following the debt relief agreements, the debt service was smoothed out and arrears were reduced. In the second half of the 1990s, Jamaica was able to pay its foreign debt service although it was higher in nominal terms. The debt stock was reduced only marginally by debt relief, since most relief involved rescheduling. The foreign debt stock decreased over the 1990s, due both to amortisation and to lower disbursements received. The debt relief granted during the early 1990s was additional to aid. Foreign financing contributed to the government budget in the early 1990s when Jamaica received debt relief, and the government policies were partially changed during that period.

Table 3.1 Central government expenditures and receipts (per cent of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Current expenditure	22.5	21.2	19.4	22.3	22.5	23.1	26.3	28.4	31.4	31.7
Interest payments	8.8	8.3	8.2	8.7	9.8	9.3	11.4	9.5	12.7	14.1
Foreign	3.6	4.1	4.4	5.2	3.1	2.9	2.5	2.2	2.2	2.3
Domestic	5.2	4.1	3.8	3.5	6.7	6.5	8.9	7.3	10.4	11.8
Capital expenditure	4.1	4.7	4.8	4.1	3.8	5.8	5.6	5.1	2.7	3.1
Total receipts	29.5	30.1	28.0	28.9	29.1	30.3	26.4	25.8	27.1	30.5
Revenue	28.5	28.7	26.9	28.5	28.2	29.6	25.9	25.5	26.9	30.2
Grants	1.1	1.4	1.1	0.4	0.9	0.6	0.4	0.3	0.2	0.3

Source: IMF Staff Reports for 2001, 2000, 1997 and 1995.

Table 3–2 Overall public sector financing (per cent of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Overall balance	-6.2	-2.9	-0.4	1.4	4.0	3.2	-4.6	-9.4	-11.1	-7.4
Total financing:	6.2	2.9	0.4	-1.4	-4.0	-3.2	4.6	9.4	11.1	7.4
Foreign financing	2.6	2.2	-1.2	-0.2	-0.6	-1.6	-0.9	1.1	-0.8	-1.2
Other financing	3.6	0.7	1.6	-1.2	-3.4	-1.6	5.5	8.3	11.9	8.6

Source: IMF Staff Reports of 2001, 1999 and 1995.

Table 3–3 Composition of imports (per cent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Consumer goods	21	17	16	17	22	21	25	27	33	34
Raw materials	52	55	68	68	61	62	59	53	47	46
Capital goods	27	28	16	16	17	17	16	20	21	19

Source: Own calculations based on data from Various IMF Country Reports.

Table 3–4 Debt stock and forgiveness (million USD)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
LDOD debt stock	3970.4	3740.3	3591.4	3480.9	3516.0	3537.2	3257.2	3111.7	3283.2	3070.8
Forgiveness	-24.5	-341.3	-21.2	-102.2	-21.4	0.0	0.0	0.0	0.0	-7.5
Forgiveness - LDOD (%)	-0.62	-9.12	-0.59	-2.94	-0.61	0.00	0.00	0.00	0.00	-0.24

Source: Global Development Finance 2001.

1/ Including debt stock reduction.

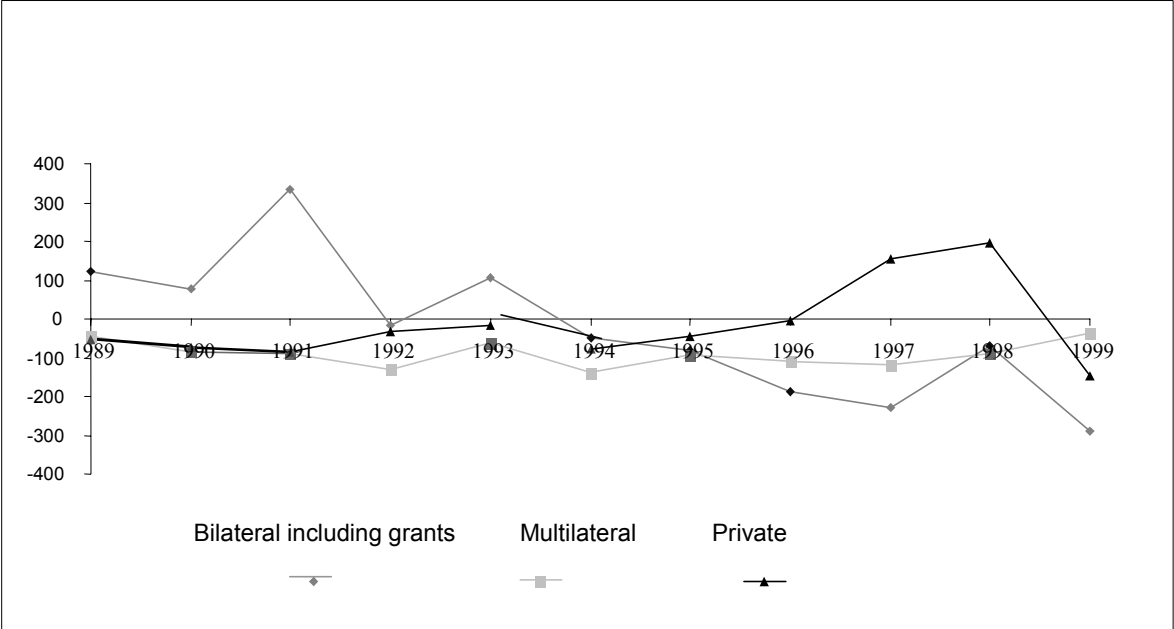
Table 3—5 Balance of Payments (USD million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Exports of goods, services, and income	2244	2118	2319	2555	2820	3194	3138	3547	3503	3591
Merchandise exports	1219	1082	1051	1102	1280	1438	1369	1703	1551	1550
Service exports and income	1025	1036	1267	1453	1540	1756	1769	1844	1952	2041
Imports of goods, services, and income	2746	2532	2684	3110	3337	4000	3970	4543	4339	4603
Merchandise imports	1901	1742	1832	2231	2327	2926	2942	2850	2656	2744
Service imports and income	845	791	852	879	1010	1074	1028	1693	4339	1859
Interest payments (net) ¹	-323	-294	-255	-208	-164	-131	-105	-183	-183	-185
Net current transfers	286	259	361	499	532	549	667	611	636	695
of which grants	97	61	47	40	22	54	53	40		
Current account balance	-215	-156	-4	-56	15	-257	-165	-385	-200	-317
Capital account	325	198	174	193	379	304	318	332	185	338
Official capital (medium and long term)	184	62	-105	-27	-106	-115	20	106	-89	-49
Inflow	633	441	284	393	296	218	318	381	388	320
Bilateral	100	70	23	24	8	11	12	0	0	0
Multilateral	53	95	0	64	0	35	0	0	0	0
Rescheduling	136	131	125	117	106	50	0	0	0	0
Others	343	144	135	188	182	122	306	381	388	320
Of which: project financing	204	52	69	110	147	101	153	76	76	70
Outflow	448	379	388	420	402	333	298	275	477	369
Short-term public sector borrowing (net)	27	-86	15	-26	16	8	19			
Private capital (net)	114	223	263	246	469	411	279	226	274	387
Direct investment (net)	120	79	114	100	77	177	139	169	270	299
Other, including errors and omissions	-6	143	149	146	392	234	140	57	4	88
Overall balance	110	43	170	137	394	47	153	-53	-15	21
Change in official reserves (increase -)	-110	-42	-170	-137	-394	-47	-153	53	14	-20
Assets	-60	7	-124	-134	-353	50	-86	86	30	-6
Liabilities	-50	-50	-46	-3	-41	-97	-67	-33	-16	-14
IMF (net)	-6	-20	-19	-7	-44	-97	-67			
Arrears	-58	0	0	0	0	0	0			
Other	13	-30	-27	4	3	0	0			

Source: IMF Staff Reports for 2000, 1999, 1997 and 1995.

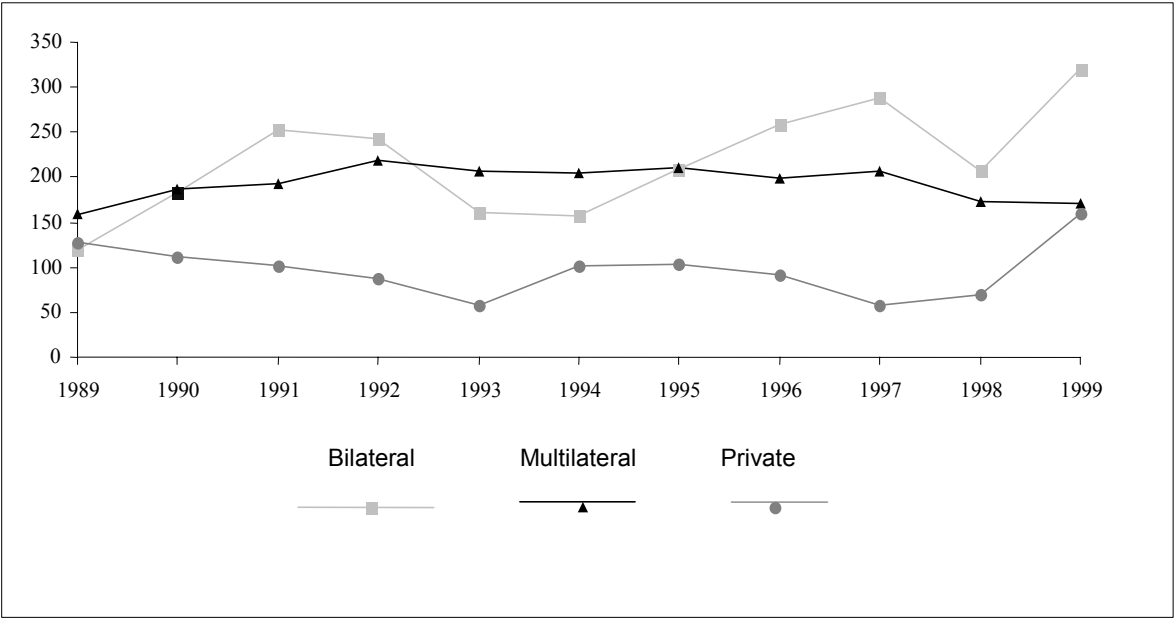
1/Interest payments included in income.

Figure 3—1 Net transfers on debt by creditor category (USD million)



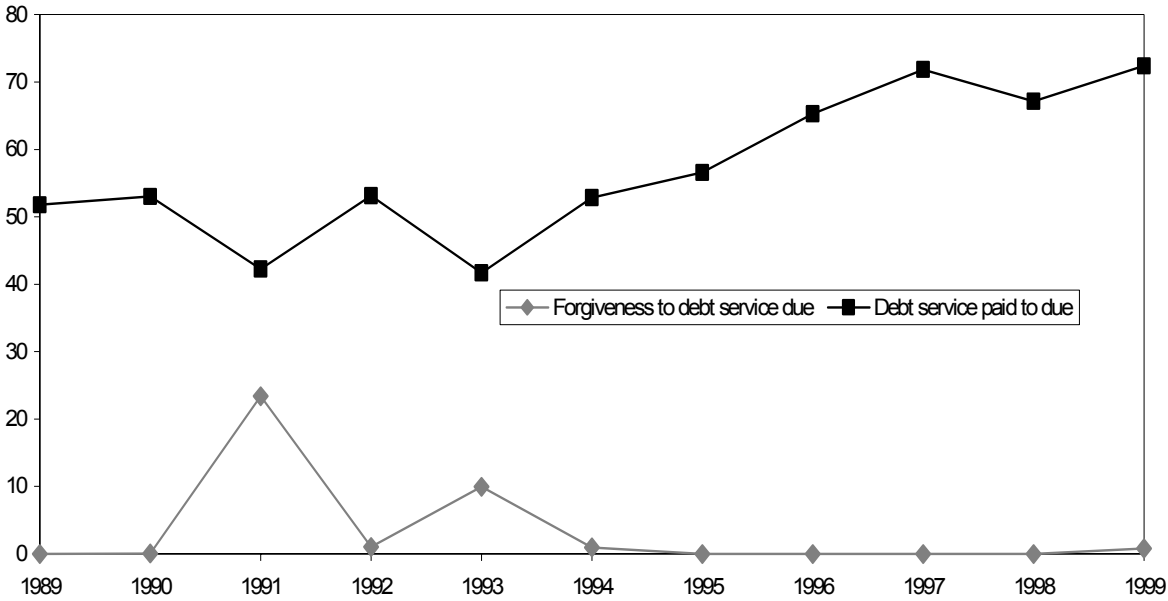
Source: GDF 2001.

Figure 3—2 PPG debt service by creditor category (USD million)



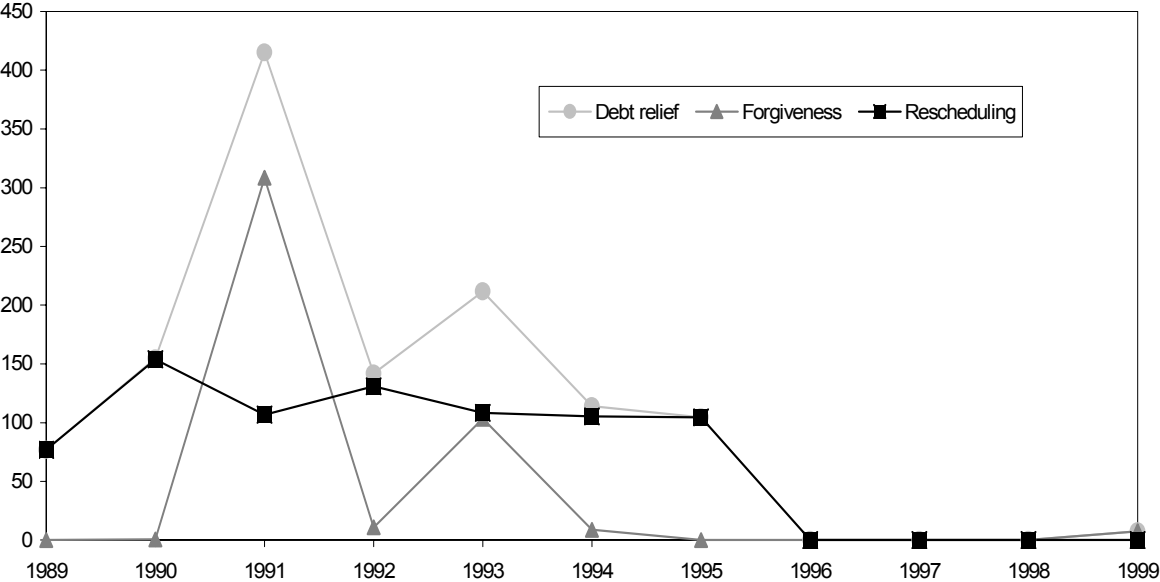
Source: GDF 2001.

Figure 3—3 Forgiveness and debt service paid 1989 – 1999 (per cent)



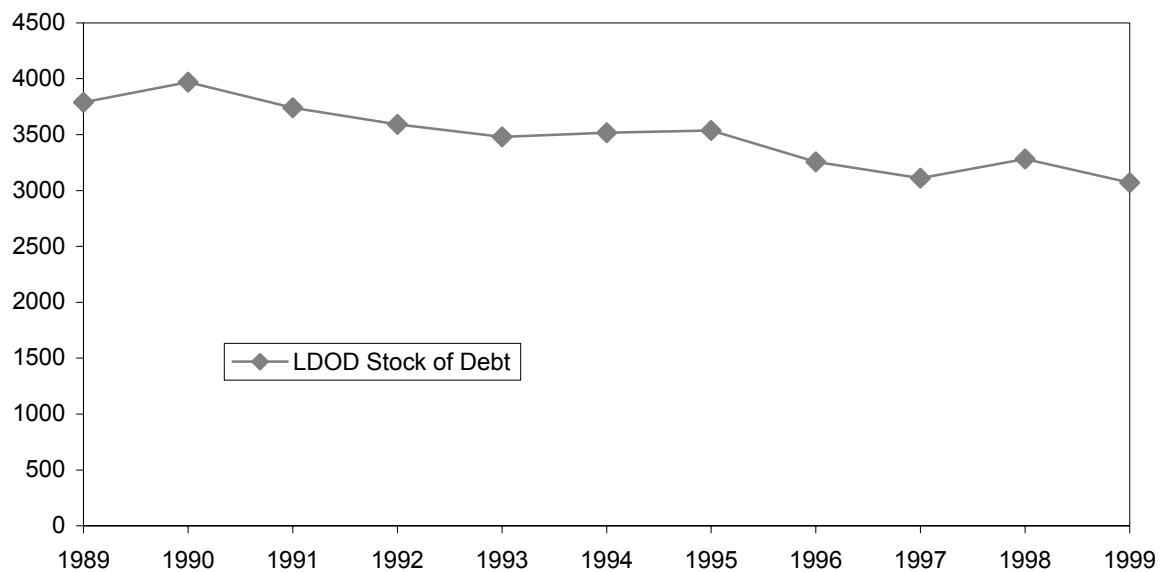
Source: GDF 2001.

Figure 3—4 Debt relief 1989 – 1999 (USD million)



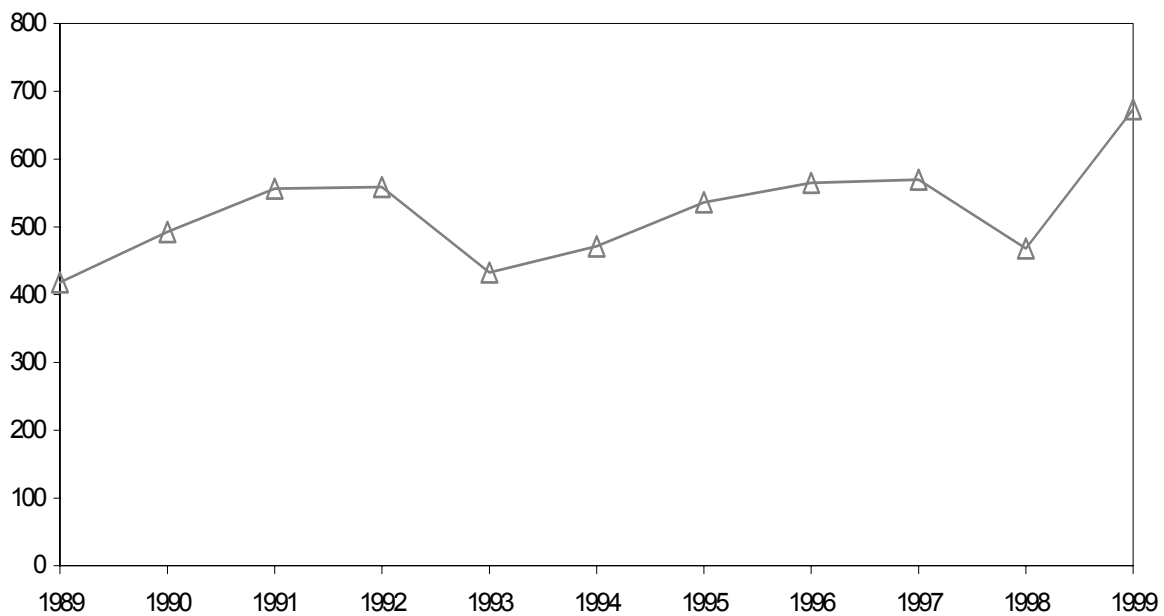
Source: GDF 2001.

Figure 3–5 LDOD debt stock 1989 – 1999 (USD million)



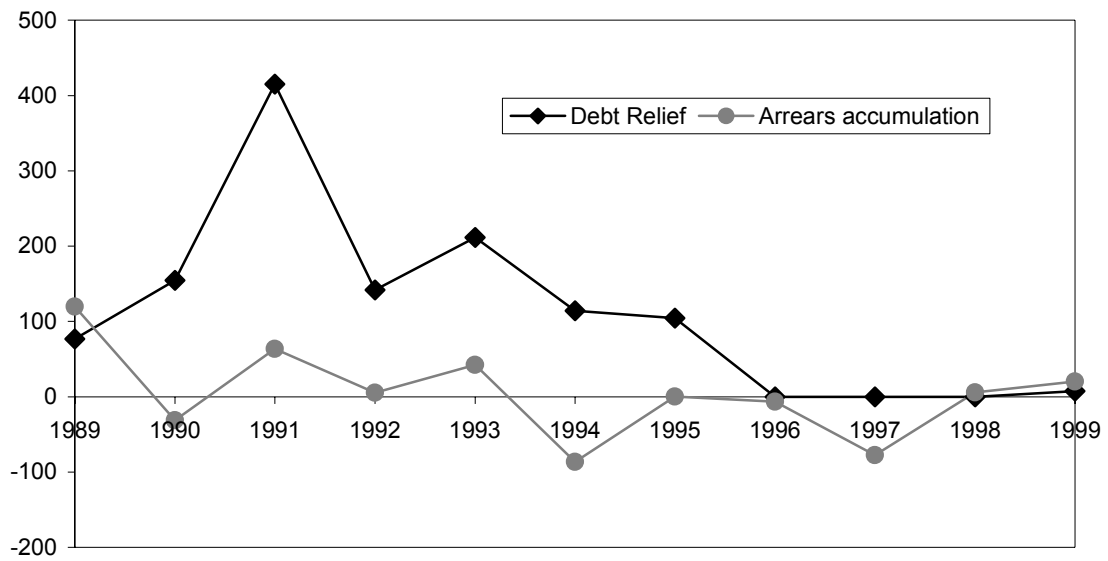
Source: GDF 2001.

Figure 3–6 Debt service paid 1989 – 1999 (USD million)



Source: GDF 2001.

Figure 3—7 Debt relief and arrears accumulation (USD million)



4 OUTCOMES OF DEBT RELIEF

This chapter gives an assessment of the debt relief effectiveness. In other words, assessing to what extent the debt relief inputs and outputs have contributed to the desired outcomes such as improvement of debt sustainability and creditworthiness.

During the 1990s, as Table 4–5a shows, the debt service ratio¹¹ was declining, especially in the second half. In 1998 it was almost half of that of 1990. The ratio of total external debt to gross national product (GNP) increased in the early 1990s, but started to decline in 1993 and onwards. This means that during this period the GNP was growing at a faster rate than external debt. The interest payments-exports ratio was falling during the whole decade of the 1990s, except in 1999.

The ratio of concessional debt to total external debt fell towards the end of the 1990s (see Table 4–5a). The implication is that Jamaica was borrowing less on concessional terms at the end of the decade as compared to the first half of the 1990s.

It can also be seen from Table 4–5a that Jamaica was increasingly resorting to short-term borrowing in the second half of the 1990s relative to the first half. Regarding the share of multilateral debt in total external debt, it remained, more or less, the same during the 1990s. Table 4–5b, in which total long-term outstanding debt (LDOD) is used instead of total debt stock (EDT), shows similar trends as those in Table 4–5a.

Comparing Jamaica's debt indicators to those in the debt literature can give an idea whether the external debt of Jamaica can be sustained in the future or not. Cohen (1997) has established critical values for debt indicators above which debt servicing has negative effects on economic growth of the debtor country. These critical values are 50 per cent for the debt-GDP ratio, 200 per cent for the debt-exports ratio, and 300 per cent for the debt-tax ratio.

Comparing Cohen's critical values with those of Jamaica, we find that although the debt-GNP ratio (GNP is more relevant than GDP in this context) was rising during the period 1970–1990, it has been steadily falling in the 1990s. It declined from about 123 per cent in 1990 to about 60 per cent in 1999. Had we used debt-GDP ratio rather than debt-GNP ratio, we would have found a ratio in the range of 50 per cent. This is because in the case of Jamaica, GDP is greater than GNP due to the fact that net foreign factor income is negative (IMF, 2001)¹². Regarding debt-export ratio, it has been lower than the critical value throughout the 1990s, and was steadily declining till it reached about 93 per cent in 1999. As far as the debt-tax ratio is concerned, it was above the critical value in the first half of the 1990s (1990–1994), but below the critical value in the second half (1995–1999). It decreased steadily from about 425 per cent in 1990 till it reached about 201 per cent in 1999 (see Table 4–6).

From the above analysis we can conclude that Jamaica's external debt is unlikely to be harmful to its future economic growth prospects, using Cohen's three criteria. In other words, the stock of debt can be serviced without affecting economic growth. And by implication the debt relief of the early 1990s can be considered effective in this respect.

Under the 1996 original Heavily Indebted Poor Countries (HIPC) initiative, debt sustainability required that the ratio of the Net Present Value (NPV) of debt to export earnings should be in the range of 200–250 per cent. And the debt service due is 10 per cent of the NPV of debt,

¹¹ That is total debt service to exports of goods and services including remittances.

¹² Gross national product (GNP) = Gross domestic product (GDP) + Net foreign factor income (NFI). If NFI < 0 then GNP < GDP, if NFI > 0 then GNP > GDP.

which is equivalent to a debt service ratio in the range of 20-25 per cent. Under the enhanced HIPC initiative of 1999, the NPV debt to export earnings is reduced to 150 per cent. Although the debt service ratio is left unchanged, it is effectively reduced to 15 per cent since the debt service due under HIPC remains 10 per cent of the NPV of debt (Hanlon, 2000).

Using debt sustainability criteria of the original 1996 HIPC initiative and the 1999 enhanced one, Jamaica's external debt stood at a sustainable level during the second half of the 1990s (see Table 4–5a). So, we can safely say that Jamaica has passed the HIPC debt sustainability test.

Another approach to checking the long-term sustainability of Jamaica's external debt is by comparing the interest rate on debt with the growth rates of exports, GNP and government tax revenue over a period of time. Over the period 1990-1999, the average interest rate on debt was about 7 per cent. Over the same period, the average growth rates of exports, GNP and central government tax revenue were 9 per cent, 8 per cent and 7 per cent respectively¹³. It is obvious that there is no reason for concern regarding the exports, GNP, and government tax revenue growth rates, by the end of the decade of the 1990s. Therefore, using this approach we can conclude that Jamaica's external debt is sustainable in the long run.

In the debt literature, liquidity¹⁴ is also used as an indicator of a country's debt payment problems in the short run. A country is considered illiquid when its current payments obligations are larger than its ability to pay. Cline (1995) argues that an interest-exports ratio is a good indicator of a country's liquidity, and set a threshold of 15 per cent. In the case of Jamaica, although the interest-exports ratio was relatively high in the early 1990s as compared to the second half of the decade, it never reached 15 per cent during the period 1990-1999. It was about 10 per cent in the early 1990s and fell to 5 per cent in 1997 and 1998, which was far below Cline's critical value (see table 4–5a). Using Cline's liquidity criterion, it is obvious that Jamaica has no liquidity problem in the short run, and in the long run it is solvent, as we have seen above.

If the ultimate objective of the donors is to see an improvement in the country's social indicators, then whether this improved performance is attributed to the debt relief money or the government's own money does not make a difference, as long as there is an improvement in these indicators. Looking at the general trends of these indicators shows us which direction they took during the 1990s. As table 4–8 shows, health expenditure per capita in current USD was USD 80 in 1990 and it was USD 157 in 1998; this gives an annual average growth rate of about 9 per cent. Regarding public health expenditure as a percentage of GDP, it increased from 2 per cent in 1991 and 1992 to 3 per cent in the second half of the decade. As Table 4–9 shows, the human development index (HDI)¹⁵, which is a summary measure of human development, increased from 0.722 in 1990 to 0.735 and 0.738 in 1995 and 1999 respectively. There was a steady improvement in the HDI during the decade of the 1990s; although in the change in the HDI between 1990 and 1995 was relatively bigger than the change between 1995 and 1999.

¹³ First a three-year average growth rates of these variables were calculated. Then a simple average for each variable was calculated over a ten-year period, these calculations were made using the figures of Table 4–6. All variables were measured in current USD.

¹⁴ As opposed to solvency which refers to the situation that in the long run a country's growth rates of GNP and exports are such that it will be able to pay its future debt obligations.

¹⁵ HDI measures the average achievement in three dimensions of human development. These are a long and healthy life as measured by life expectancy at birth, knowledge as measured by adult literacy, and a decent standard of living as measured by GDP per capita.

As Table 4—7 shows, public expenditure on health and education as a percentage of the GDP averaged 3.7 per cent and 7.4 per cent respectively during the period 1993-99. Regarding expenditure on education, it is far above the average for Latin America and Caribbean region and the lower middle income group of countries. Expenditure on health is more or less similar to the same region and income group. With respect to life expectancy, it has risen from 67 and 70 years for males and females respectively during the period 1970-75 and to 69 and 72 years for the period 1993-1999. Infant mortality per thousand live births declined from 35 during 1970-75 to 25 for the period 1993-1999. This is far better than the average for Latin America and Caribbean region and the lower middle income group.

Concerning investment (gross capital formation)¹⁶, it increased from about 20 per cent of the GDP in the early 1990s to about 30 per cent in the mid of the 1990s and about 25 per cent by the end of the decade¹⁷ (see Table 4—10). The table also shows that the share of government in fixed capital formation as a percentage of the GDP declined from about 5 per cent in the early 1990s to about 3 per cent towards the end of the decade; while the share of the private sector increased from about 14 per cent in the early 1990s to about 23 per cent by the end of the decade. Regarding foreign direct investment (net), it was growing steadily in the second half of the 1990s (see Table 4—3).

The improvement of Jamaica's creditworthiness during the decade of the 1990s can be seen from the trends of debt service paid-to-debt service due ratio, inflows of private foreign capital and private creditors' loan disbursement. Figure 3—3 shows that the ratio of debt service paid to debt service due increased from about 53 per cent in 1990 to about 72 per cent in 1999, this gives an average growth rate of about 3.5 per cent per annum. Table 4—3 shows that foreign direct investment (net) was steadily increasing during the second half of the 1990s; and private creditors' loan disbursement followed the same pattern, except for 1999. Regarding Jamaica's credit rating, Standard and Poors' gave Jamaica's long term foreign currency sovereign debt a credit rating of "B" and domestic currency debt a credit rating of "B+" (IMF, 2000). Figure 4—1 shows that the Euromoney score is inversely related to the debt-GNP ratio. The trend of the Euromoney score for Jamaica was generally rising between 1992 and 1998, at which time the debt-GNP ratio was falling and then stabilised between 1997 and 1999. All this indicates that Jamaica's creditworthiness was improving during the second half of the 1990s.

The main conclusion from the above discussion is that Jamaica's debt sustainability and creditworthiness have indeed improved during the second half of the 1990s, following the debt relief earlier in the decade. Although we cannot attribute the whole improvement to the inputs and outputs of the debt relief, but at least part of this improvement is due to the debt relief and the rest can be attributable to other factors.

¹⁶ Gross capital formation = gross fixed capital formation + change in stocks.

¹⁷ The fact that investment-GDP ratio was relatively high during the decade of the 1990s but it did not lead to growth is termed "Investment Puzzle" by the World Bank (2000).

Table 4–1 Debt stock and its components (USD million)

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total debt stocks (EDT)	982	1913	4674	4413	4260	4106	4317	4271	3995	3912	4017	3913
Long-term debt (LDOD)	982	1505	3970	3740	3591	3481	3516	3537	3257	3112	3283	3071
Use of IMF credit	0	309	357	391	357	335	318	240	161	118	105	83
Short-term debt	0	98	347	281	312	290	483	494	577	683	628	759

Source: Global Development Finance 2001.

Table 4.2 PPG debt flows (USD million)

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Loan disbursements	14.6	337.8	284.3	423.0	317.0	215.1	105.6	235.5	209.9	320.5	392.9	150.0
Principal repayments	6.0	91.8	281.5	358.5	385.0	259.7	281.8	335.4	367.5	396.1	289.4	339.1
Net flows on debt	8.6	246.0	2.8	64.6	-67.9	-44.6	-176.1	-99.9	-157.7	-75.6	103.5	-189.2
Interest payments	9.3	114.6	200.0	189.3	165.7	164.9	181.8	185.4	181.9	155.8	157.4	309.1
Debt service	15.3	206.3	481.5	547.8	550.7	424.7	463.5	520.8	549.5	551.9	446.8	648.2
Net transfers on debt	-0.6	131.5	-197.2	-124.7	-233.7	-209.6	-357.9	-285.3	-339.6	-231.4	-53.9	-498.2

Source: Global Development Finance 2001.

Table 4–3 Aggregate net resource flows and net transfers, long-term (USD million)

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>Net resource flows</i>	174	301	249	474	131	276	94	161	60	233	556	345
Net flow of long-term debt (ex. IMF)	10	261	-6	59	-68	-44	-126	-50	-163	-11	95	-202
Foreign direct investment (net)	162	28	138	133	142	78	130	147	184	203	369	524
PPG private creditors disbursements	1	21	39	14	56	41	23	57	89	212	264	13
Portfolio equity flows	0	0	0	0	0	0	0	0	0	0	0	0
Grants (excluding technical coop.)	3	13	117	282	57	242	91	63	39	40	92	24
<i>Net transfers</i>	6	66	-142	110	-94	104	-114	-66	-163	29	346	-24
official net transfers	12	247	-7	245	-145	48	-189	-177	-298	-346	-157	-329
private net transfers	-6	-181	-135	-135	51	55	75	111	135	375	503	305

Source: Global Development Finance 2001.

Table 4–4 Economic aggregates (USD million)

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Gross national product (GNP)	1400	2425	3805	3317	2887	3814	4089	4275	4288	6563	6671	6557
Exports of goods & services (XGS)	..	1472	2461	2384	2453	2670	3608	4138	4123	4205	4215	4201
of which workers remittances	..	51	136	136	158	187	458	582	636	642	659	679
Imports of goods & services (MGS)	..	1678	2928	2757	2624	3057	3516	4237	4223	4498	4493	4427
International reserves (RES)	139	105	168	106	324	417	736	681	880	682	709	555
Current account balance	..	-136	-312	-240	29	-184	93	-74	-112	-311	-302	-256

Source: Global Development Finance 2001.

Table 4–5a EDT-based debt indicators

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
EDT / XGS (%)	..	129.9	189.9	185.1	173.7	153.8	119.7	103.2	96.9	93.0	95.3	93.2
EDT / GNP (%)	70.2	78.9	122.8	133.0	147.6	107.7	105.6	99.9	93.2	59.6	60.2	59.7
TDS / XGS (%)	..	19.0	26.9	29.0	27.8	20.3	16.3	16.3	16.3	15.3	12.4	17.4
INT / XGS (%)	..	10.8	10.6	10.1	8.7	7.6	6.0	5.7	5.5	5.0	5.0	8.6
INT / GNP (%)	4.5	6.6	6.9	7.3	7.4	5.3	5.3	5.5	5.3	3.2	3.1	5.5
RES / EDT (%)	14.2	5.5	3.6	2.4	7.6	10.2	17.1	16.0	22.0	17.4	17.7	14.2
RES / MGS (months)	..	0.8	0.7	0.5	1.5	1.6	2.5	1.9	2.5	1.8	1.9	1.5
Short-term / EDT (%)	0.0	5.1	7.4	6.4	7.3	7.1	11.2	11.6	14.4	17.5	15.6	19.4
Concessional / EDT (%)	2.0	20.3	29.9	28.4	30.4	29.3	29.8	31.4	31.2	27.7	26.6	25.5
Multilateral / EDT (%)	3.0	14.9	25.0	26.8	26.2	28.0	27.4	28.3	27.5	25.2	24.8	25.9

Source: Global Development Finance 2001.

Table 4–5b LDOD-based debt indicators

	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
LDOD/XGS (%)	...	102.2	161.3	156.9	146.4	130.4	97.5	85.5	79.0	74.0	77.9	73.1
LDOD/GNP (%)	70.2	62.1	104.3	112.8	124.4	91.3	86.0	82.7	76.0	47.4	49.2	46.8
Short-term/LDOD (%)	...	6.5	8.7	7.5	8.7	8.3	13.7	14.0	17.7	21.9	19.1	24.7
Concessional/LDOD (%)	1.96	25.8	35.2	33.5	36.0	34.6	36.6	38.0	38.2	34.9	32.5	32.5
Multilateral/LDOD (%)	3.03	18.9	29.4	31.6	31.1	33.0	33.6	34.2	33.8	31.6	30.3	33.0

Source: Global Development Finance 2001.

Table 4–6 Debt sustainability indicators (level variables in USD million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Debt-exports ratio (D/X)	189.8	184.9	173.5	153.8	119.7	103.2	96.9	93.0	95.3	93.1
Stock of debt (D)	4671	4409	4256	4106	4317	4271	3995	3912	4017	3913
Exports of goods and services (X)	2461	2384	2453	2670	3608	4138	4123	4205	4215	4201
Imports of goods and services (M)	2928	2757	2624	3057	3516	4237	4223	4498	4493	4427
Growth rate of exports (g_x) ^(a)	13.4	8.9	4.9	2.8	14.8	19.0	15.6	5.2	0.6	0.6
Average interest rate on debt (i)	8.0	6.8	7.9	6.8	5.2	6.5	4.6	8.6	8.4	6.0
Debt-GNP ratio (D/Y)	122.8	134.1	147.4	107.7	105.6	99.9	93.2	59.6	60.2	59.7
GNP (Y)	3805	3287	2887	3814	4089	4275	4288	6563	6671	6557
Growth rate of GNP (g_y) ^(a)	12.4	0.9	-8.1	0.1	7.5	14.0	4.0	17.1	16.0	15.2
Investment (I)	1181	996	1050	1383	1415	1496	1493	2313	2148	1813
Saving (S)	1007	948	1017	980	1110	981	935	1358	1240	1143
Investment-GNP ratio (v)	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3
Saving-GNP ratio (s)	0.3	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Debt-tax revenue ratio (D/T)	425	465	514	353	375	298	269	234	219	201
Tax revenue (T)	1100	949	828	1163	1150	1432	1488	1673	1835	1948
Government Expenditure (G)	1228	1076	886	1205	1219	1585	2056	2440	2555	2640
Growth rate of tax revenue (g_t) ^(a)	10.2	1.6	-9.5	1.9	6.6	20.0	8.6	13.3	8.6	9.4
Exchange rate (er)	7.2	12.1	23.0	24.9	33.1	35.1	37.1	35.4	36.5	39.0

Source: GDF, various IMF country reports, WDI for several years and own calculations.

(a) Three-year average growth rate, but for (g_t) in 1990 it is a two-year average due to missing data.

Table 4—7 Social indicators 1970 - 1999

	1970-75	1980-85	1993-99	Same region/income group	
				LAC (1)	LMC (2)
<i>Public expenditure (% of GDP)</i>					
Health	..	..	3.7	3.3	3.0
Education	..	..	7.4	3.6	4.8
Social security and welfare	..	..	0.5	7.4	..
<i>Net primary school enrolment rate (% of age group)</i>					
Total	99	98	98	95	98
Male	..	..	99	96	98
Female	..	..	96	94	97
<i>Access to improved water source (% of population)</i>					
Total	..	..	83	75	86
Urban	..	..	98	84	90
Rural	..	..	69	45	84
<i>Immunisation rate (% under 12 months)</i>					
DPT	..	..	84	93	92
Measles (12-24 months)	..	..	82	82	93
Child malnutrition (% under 5 years)	..	..	4	8	15
<i>Life expectancy at birth (years)</i>					
Total	68	71	71	70	69
Male	67	69	69	67	67
Female	70	72	72	73	72
<i>Mortality</i>					
Infant (per thousand live birth)	35	27	25	31	33
Under 5 (per thousand live birth)	..	..	..	38	39
Adult (15-59)					
Male (per 1,000 population)	..	..	..	216	194
Female (per 1,000 population)	..	..	..	116	134
Maternal (per 100,000 live births)	..	..	111	..	..
Birth attended by skilled health staff (%)	..	..	98	78	69

Source: World Bank (2000) "Jamaica: Country Assistance Strategy".

(1) Latin America and the Caribbean.

(2) Lower middle income countries.

Table 4–8 Health expenditure

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Health expenditure per capita (current US\$)	80	65	56	79	79	89	117	147	157
Health expenditure, private (% of GDP)	2	2	2	2	2	2	2	2	3
Health expenditure, public (% of GDP)	3	2	2	3	3	3	3	3	3
Health expenditure, total (% of GDP)	5	4	4	5	5	4	5	6	6

Source: World Development Indicators 2001.

Table 4–9 Human Development Index trends 1975 - 1999

	1975	1980	1985	1990	1995	1999
Human development index (HDI)	0.688	0.692	0.694	0.722	0.735	0.738

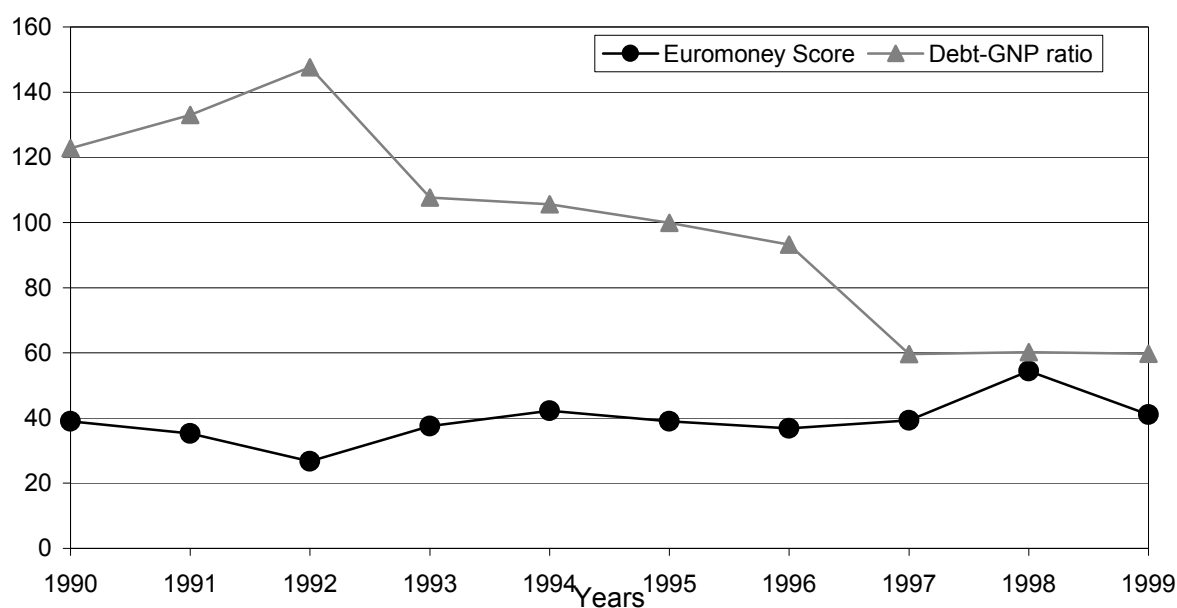
Source: Human Development Report 2001.

Table 4–10 Investment as percentage of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Gross investment	19.7	20.1	20.5	22.3	30.7	31.7	30.1	30.3	27.2	25.6
Fixed capital formation	19.2	19.6	20.2	21.8	30.5	31.4	29.9	30.1	27.1	25.5
Government	5.2	5.1	5.2	5.0	...	...	5.5	5.2	3.3	3.0
Private ¹	14.0	14.5	15.0	16.8	...	...	24.4	24.9	23.8	22.5
Change in stocks	0.5	0.5	0.3	0.5	0.2	0.3	0.1	0.2	0.1	0.1

Source: Various IMF Staff Country Reports and own calculations.

1/ Includes public enterprises.

Figure 4–1 Creditworthiness (Euromoney) scores and debt-GNP ratio

Source: GDF and Euromoney Publications.

5 IMPACT OF DEBT RELIEF

In this chapter we assess to what extent the inputs, outputs and outcomes of the debt relief have contributed to economic growth and poverty reduction in Jamaica. The conclusions are based on the analyses of the previous chapters.

5.1 Economic growth

Theoretically speaking, under the normal economic circumstances external debt should provide additional resources needed for investment and therefore lead to economic growth. The enhanced economic growth will generate enough resources for servicing the external debt. In practice, things may go wrong due to internal and/or external factors and the external debt service obligations become a heavy burden on economic growth of the country. This is where debt relief comes into the picture.

The economic growth record of Jamaica during the decade of the 1990s, can shed some light on whether debt relief has helped boost the Jamaican economy or not. The real GDP growth rate was negative in the second half of the 1990s. The sectors that were mostly affected were manufacturing and construction, as can be seen from Table 5—1. Despite high investment rates (see Table 4—10), real economic growth was either low or negative during the 1990s. Three explanations were offered by the World Bank for what they termed “investment puzzle” in Jamaica. The first is measurement errors, that is, the growth of the underground and informal economy was not reflected in the official figures and this led to understatement of GDP and its growth rate and to overstatement of the investment-GDP ratio. The second explanation is allocation inefficiencies, that is, financial intermediation was adversely affected by the financial sector crisis and the appreciation of the real exchange rate encouraged investment in non-tradables. This diverted resources away from investment areas that had the highest potential returns. The third explanation is adverse selection, that is, the high real interest rates led to crowding out of good projects and favouring the risky ones (World Bank, 2000).

Table 5.1 Annual percentage change of real GDP (at constant 1986 prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP at constant market prices (%)	5.5	0.5	1.5	1.4	1.0	0.7	-1.3	-1.8	-0.4	-0.4
Agriculture	11.5	-0.2	12.9	10.1	7.5	2.0	3.5	-13.8	-1.4	1.3
Mining	22.8	5.7	-2.5	0.3	6.9	-6.8	7.5	3.3	3.3	-1.2
Manufacturing	3.7	-7.9	1.6	-1.9	0.3	-1.0	-4.2	-2.6	-4.4	-0.9
Construction	1.6	0.6	0.4	-0.5	-6.3	7.2	-5.4	-4.0	-5.8	-1.5
Services	3.8	3.0	-2.6	1.9	0.6	1.4	-1.7	-2.0	0.8	4.4
Of which: government services	-2.1	-1.7	0.1	-0.4	-1.6	0.2	-0.3	1.6	1.0	0.3

Source: IMF Staff Reports for 1995, 1997, 2000 and 2001.

The negative GDP growth started in 1996 at the time of the financial sector crisis when the domestic financial institutions ran into liquidity and solvency problems. The consequent government intervention to bail out the financial sector has led to a large accumulation of domestic debt and as a result large interest payments. The government intervention, in the form of tight monetary policy and a large fiscal deficit, had high cost for economic growth. It led to high real interest rates and consequently the crowding out of private investment. It also led to the appreciation of the Jamaican dollar and, as a result, to a loss of competitiveness. The combination of a large domestic debt, high real interest rates, the weakening of external

competitiveness, and the large fiscal deficit has caused the Jamaican economy to undergo negative real economic growth between 1996-1999 (World Bank, 2000).

As Table 5—2 shows, domestic debt has become quite a burden in the second half of the 1990s. The domestic debt was about 30 per cent of GDP in 1991 and by the end of the 1990s it had increased to about 90 per cent. As result, domestic interest payments as a percentage of GDP increased from about 4 in 1991 to about 12 in 1999 (see Table 3—1). This high burden of domestic debt adversely affected Jamaica’s economic growth in the second half of the decade.

Table 5.2 Total domestic debt as percentage of GDP, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total domestic debt (% GDP)	...	30.3	23.8	25.6	23.2	...	35.4	60.2	74.5	90.8

Source: IMF Staff Reports for 1995 and 2001.

The Jamaican government carried out a number of important economic reforms in the first half of the 1990s. These are the removal of price controls, reform the tax system and liberalisation of the financial, trade and exchange systems. As a result of these economic reforms, external arrears were reduced, international reserves increased and debt-GDP ratio declined (IMF, 2000).

As we have seen before, debt relief was concentrated in the first half of the 1990s when economic growth was better than in the second half of the decade. How would the economic growth record have been in the absence of debt relief? It is difficult to answer this question directly, but by looking at the factors behind the poor economic performance during the second half of the 1990s we can get some insight into that question. The main factors behind the poor economic performance in the second half of the 1990s, as mentioned above, were large domestic debt, high real interest rates, the weakening of external competitiveness and large fiscal deficit. If there had been no debt relief in the first half of the 1990s, the government would have had to service its debt obligations to external creditors. Therefore, obtaining relief on its external debt obligations was presumably lifting a heavy burden from its shoulders. High real interest rates mean that government borrowing for investment/deficit financing is expensive. Debt relief freed investment resources that otherwise would have been used to service the debt. Weakening external competitiveness entails that less foreign exchange is available from export earnings, which is used for the service of external debt. Debt relief makes the fall in export earnings, due to loss of competitiveness, less severe since it saves scarce foreign exchange for financing essential imports that are needed for economic growth. Debt relief mitigates the fiscal deficit, which is simply a result of government expenditure exceeding its revenues. One item of government expenditure is external debt service and in the absence of debt relief, the fiscal deficit would have been larger. Therefore, it is likely that in the absence of debt relief the economic performance would have been adversely affected during the first half of the decade. This is because each one of the major factors behind the poor economic performance during the second half of the 1990s would also have adversely affected economic growth in the first half of the decade. The government of Jamaica referred to this same effect in its memorandum of request for debt relief from its bilateral creditors at PC in January 1993, when it stated that:

“A consequence of the high debt service has been the diversion of scarce foreign exchange from the purchase of needed imports items, and in turn this has imposed a constraint on economic growth.....the result is that essential

development expenditures in infrastructures and the social sectors have had to be foregone”

5.2 Poverty reduction

The majority of the poor in Jamaica, about 72 per cent. The sections of the population that are most affected by poverty are children under 18 years and elderly over 65 years; about two-thirds of poor households are female-headed. A considerable proportion of the poor is engaged in low productivity and low-income activities such as agriculture and the informal sector. It is found that poverty is strongly correlated with social ills such as drug abuse, teenage pregnancy, psychological instability and domestic violence. In addition, there is a strong correlation between the enrolment in secondary education and the level of income. Despite the poor record of economic growth during the 1990s, there is a decline in measured poverty (see Table 5–3) and an improvement in social indicators see Table 4–7), such as life expectancy at birth, access to safe water and sanitary facilities. One explanation for this is that disinflation has led to a real wage increase which in turn led to rising per capita consumption. Another explanation is the growth of the informal sector where most of the poor are engaged (World Bank, 2000).

As Table 5–3 shows, the poverty incidence (as measured by the headcount ratio) decreased from about 45 per cent in 1991 to about 17 per cent in 1999. During the same period, the depth of poverty (as measured by the poverty gap index) decreased from an index of about 16 in 1991 to an index of about 4 in 1999. On the other hand, the income inequality (as measured by Gini coefficient) remained more or less unchanged during the 1990s at around 0.38.

Table 5.3 Poverty incidence and severity

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Headcount ratio ¹	30.5	28.4	44.6	33.9	24.4	22.8	27.5	26.1	19.9	15.9	16.9
Poverty gap index ²	10.9	7.9	15.7	10.7	7.5	6.0	7.2	6.9	4.9	4.2	4.4
Gini coefficient	...	0.38	0.40	0.38	0.37	0.38	0.36	0.36	0.42	0.37	0.38

Source: World Bank (2000) "Jamaica: Country Assistance Strategy".

1/ Percentage of the population below the poverty line.

2/ Average sum of all poverty gaps in population (non-poor have a zero gap), where the poverty gap is the shortfall of expenditure from the poverty line divided by the poverty line.

The reduction in poverty during the 1990s is hardly attributable to economic growth, at least not to that of the formal economy. Also, it is not attributable to an improvement of income distribution since, as we have seen in Table 5–3 above. The measure of income distribution, i.e. Gini coefficient, has hardly changed during the decade of the 1990s. In addition to the two explanations for poverty reduction mentioned above, i.e. disinflation and growth of the informal economy, the improvement of the social indicators can be thought of as an additional explanatory factor.

Another attempt at the reduction of poverty that involved bilateral and multilateral donors is the Jamaica Social Investment Fund. It was set up in 1996, as part of the National Poverty Eradication Programme, with the objective of providing social and economic infrastructure, social services and support to poor communities. The fund provides opportunities for those outside the reach of government programmes to gain access to public resources. It provides resources to address the needs of marginalized individuals and communities and therefore addresses the issue of social exclusion. The World Bank contributed USD 20 million, the bilateral ODA contribution was USD 13 million, while the domestic contribution was USD 15 million (World Bank, 1999; Dijkstra and Green, 2000).

The main conclusion of this chapter is that in the first half of 1990s, and in the presence of debt relief, real economic growth was positive and thus higher than in the second half of the decade, when it was negative. It is likely that debt relief had some influence on the positive economic growth of the early 1990s. Regarding poverty, it was indeed reduced during the 1990s, but the reduction is not directly linked to the formal economy or the improvement of income distribution. The impact of debt relief on poverty reduction is at best remote.

ANNEXES

ANNEX A REFERENCES

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TERMS OF REFERENCE FOR COUNTRY CASE STUDIES

The evaluation of Dutch debt relief policy and expenditures aims to answer the following research questions:

- to what extent were the political and financial interventions (the inputs) **efficient** in terms of outputs such as debt and debt service reduction (DDSR) and increases in imports and government expenditure?
- to what extent were these inputs and outputs **effective** in producing desired outcomes such as improvement of debt sustainability, improvement of creditworthiness and investment?
- to what extent were these inputs, outputs and outcomes **relevant** by contributing to the longer-term impacts of economic growth and, ultimately, poverty reduction?

Country case studies

In the 8 country case studies, the evaluation questions of efficiency, effectiveness and relevance will all be addressed (see attached Table 1: evaluation matrix). In addition, an in-depth analysis is to be made of the nature of the country's debt problem and therefore of the relevance of debt relief as compared to, for example, new loans or grants.

Debt relief is defined as any action that leads to a reduction in the net present value of the debt. The basic assumption for this evaluation is that IF debt relief contributes to economic growth it does so via a reduction of the debt burden. Two effects are possible:

- The reduction of the net present value of the debt *stock* will increase creditworthiness of the country (according to the debt overhang hypothesis), and thereby lead to more private investment and inflows of private capital. This will enhance economic growth.
- The reduction of the debt *flows* (actual debt service) will lead to additional imports and government expenditure. Increased imports may include investment goods or intermediate goods leading to increased use of existing capital stock, and government spending may imply higher public investment and/or more social expenditure.

Since the effects of *Dutch* debt relief cannot be separated from those of debt relief by other actors, the object for the case studies consists of *all* debt relief received by the country, both from official and commercial sources. Where possible and relevant, special attention will be given to Dutch debt relief. The evaluation period covers 1990-1999, but the analysis of the debt problem has to start earlier, in the 1970s.

The country studies seek answers to five broad questions, each of which is to be dealt with in a separate chapter of the report, with chapters 2 to 5 corresponding to the different levels of the evaluation matrix (inputs, outputs, outcomes and impact), while chapter 1 will provide an introduction and background. In addition to the sources mentioned in the Evaluation matrix, the researcher carrying out the case study is expected to take into account the relevant academic literature on the country as well as pertinent previous evaluations. A minimum selection will be provided by the co-ordinator and her assistant, but the consultation of additional material at the researcher's own initiative will, of course, be welcomed.

1. Debt problem analysis: nature, causes and consequences.

Why had the debt burden become unsustainable by the beginning of the evaluation period, 1990, and what have been the consequences of this unsustainability? Answering these questions involves analytical descriptions of:

1. The build-up of the country's debt, going back to the 1970s, including major creditors, interest rates, degree of concessionality in real terms, that is including any adverse exchange rate effects (see Mistry, 1996: 25-6), etc.
2. Conditionality attached to loans granted before 1990, and degree of compliance (short overview).
3. Trends in GDP, exports, fiscal revenues; causes of slow growth rates: review of important factors such as developments in terms of trade, inflows of foreign aid, loans and FDI, political instability, natural and man-made disasters, adverse policies, etc.
4. Trends in poverty and social indicators before 1990.
5. Debt sustainability indicators: trends in debt/GDP, debt service *due*/exports versus debt service *paid*/exports.
6. Public and private shares of external debt, and changes over time; government take-over of private debt.
7. Extent to which the external debt situation was exacerbated by a domestic debt problem.
8. Net transfers on debt before 1990, and how these compared to aid flows (grants, new loans).
9. Debt relief, if any, provided before 1990 and its influence on debt sustainability indicators. Any bail out of private creditors by official creditors/donors (see Demirgüç-Kunt & Huizinga, 1993).
10. The nature of the debt problem in 1990, in particular, whether the country's inability to pay was caused by insufficient liquidity (short-term problem) or a lack of solvability (long-term problem). Any difference between this ex-post assessment result and the common perception of the debt problem at the time.
11. The consequences of the debt problem in 1990, in particular whether it affected growth rates:
 - through too high transfers on debt leading to lower imports and lower government expenditure;
 - and/or leading to lower growth rates through a heavy debt overhang (high debt stock, so high expected tax on private profits lowering private investment and inflows of private capital).

2. Inputs: amounts and modalities of debt relief in the period 1990-1999

What were the inputs into the debt relief process in terms funding, modalities and conditions? Answering this question requires the following data:

1. Overview of amounts and modalities of debt relief: by creditor, by type of debt, by framework for debt relief activities (Paris Club, Multilateral Debt Funds, 5th and 6th dimension, HIPC, etc.), extent of forgiveness, interest subsidy, buy-back, etc.
2. Stated objectives of debt relief.
3. Any conditions attached to the different modalities of debt relief, including assessment of *track records* (see attached Table 2 for possible contents of conditions and track records)
4. Special attention to Dutch modalities, motives, conditions, and objectives for debt relief.

5. The extent to which debt relief was *additional* to other inflows (loans or grants); in general, and for Dutch debt relief in particular; according to the HIPC initiative, debt relief should be additional (Andrews et al., 2000: 16) but practice may be different.
6. Amounts and modalities of new loans and grants 1990-99. Dutch loans and grants.

Assessment:

Was the combination of new funding and debt relief modalities consistent with the perceived and the actual nature of the debt problem (as described in 1.10)? Were these inputs suitable for the improvement of debt sustainability (see Cline, 1995: 29 and Hanlon, 2000)?

3. Outputs of debt relief: efficiency analysis

To determine how efficient the inputs were in producing the intended outputs the following data are to be collected and analysed:

1. Debt service *due* during 1990-1999 as compared to debt service *actually paid* and accumulation versus payment of arrears.
2. The share of (total as well as Dutch) debt relief that effectively relieved the debt burden in that it led to a reduction of actually paid debt service (see Annex 1).
3. The effect of the different modalities of debt relief on actual payment of debt service on the reduced as well as on other debt. Since debt relief usually increases ability and/or willingness to pay other debts, other creditors may benefit. This may be an unintended side-effect and has been established for debt buy-backs (Bulow & Rogoff, 1988), or it may be an intended result: in the context of HIPC agreements, countries may be obliged to start or resume servicing debts that they ignored before.
4. Extent to which debt relief freed resources for the government, with special attention to Dutch debt relief. This follows from 2.6, 3.2 and 3.3. Compare to the amounts of new loans and grants received during the period 1990-1999 (see 2.7).
5. Extent to which debt relief benefited the creditor itself or other creditors (bailing out), with special attention to Dutch debt relief. This follows from 3.2-3.4. Specify whether official or private creditors benefited.
6. Effect of debt relief on the reduction of the nominal debt stock and the net present value (NPV) of debt.
7. Compliance with debt relief conditionality, changes in policies, changes in governance (see Table 2 and Annex 2).
8. To the extent that debt relief was additional and freed resources (3.4): trace its effects in the government accounts (on public investment and social expenditure, in particular) and in the balance of payments (increased imports, if possible broken down by destination: capital goods, intermediate inputs, consumer goods), according to the accounting framework outlined in Annex 3.

Assessment:

How efficient were the chosen modalities of debt relief in reducing the debt burden, in terms of both NPV of debt and actual debt service?

4. Outcomes of debt relief: Effectiveness

The effectiveness of debt relief is to be assessed by collecting / analysing the following data:

1. Trends during the evaluation period 1990-1999 in the debt sustainability indicators: debt/GDP, debt service due/exports, NPV of debt/exports. We focus on trends as most relevant issue for this evaluation. However, the absolute values of these indicators will be compared to subjective sustainability criteria (limits) according to the IFIs (from HIPC documents) but also according to other sources, e.g. Hanlon (2000).
2. Extent to which change in sustainability can be attributed to debt relief. Both the numerators and the denominators of these indicators are not only the result of debt relief, but also of new loans and grants during the period and of the concessionality of those loans (see Annex 4). In addition, the trends in GDP and exports (the denominators) depend on many other factors: policies, political stability, weather conditions, international prices, etc. The possible causes for the developments in the debt sustainability indicators will be analysed.
3. Improvement, if any, of social indicators (see Annex 5) as a result of debt relief leading to policy changes and changes in governance (as analysed in 3.6) .
4. Improvement, if any, of social indicators as a result of debt relief freeing government resources for more public investment and social expenditure (3.7).
5. Increase, if any, in private investment as a result of debt relief freeing resources for more public investment: crowding in.
6. Increase, if any, in private investment as a result of debt relief lowering the debt stock, thereby reducing the debt overhang.
7. Improvement, if any, in the creditworthiness of the country leading to new private capital inflows, as a result of a reduction of the debt stock. This implies an analysis of creditworthiness according to ratings, and of figures on private capital inflows (distinguishing between loans, portfolio investment, FDI). It must be born in mind that other factors such as (expected) economic growth, credibility of government policies, and even conditionality attached to debt relief efforts may also have led to improvements in ratings and increases in flows. Debt relief may, on the other hand, have reduced creditworthiness by lowering expectations on future debt service by the country. According to a recent literature review and additional empirical evidence, policy-based lending and the attached conditionality have only limited effect on private flows (Bird & Rowlands, 2000).

Field studies:

In the field studies, the trends in social indicators (4.3-4.4) and in private investment and private capital inflows (4.5-4.7) can be analysed and explained more thoroughly by having interviews with government officials, NGOs, donors and representatives of the private sector.

Assessment:

How effective has debt relief been in increasing debt sustainability, stimulating private investment and improving social indicators, both via the attached conditionality and via the stock and flow effects of debt relief?

5. Impact of debt relief: Relevance

Assessment:

Based on the analysis under 1-4, the final impact of the different modalities of debt relief on economic growth and on poverty reduction is to be assessed.

1. Economic growth was already briefly analysed in 4.1 and 4.2 as denominator for one of the debt sustainability indicators, but the analysis can now be broadened, taking into account the other outcomes under 4 (4.3-4.7).
2. For poverty, trends in the usual poverty indicators (P_0 , per cent of population below poverty line), and P_1 , the poverty gap (total shortfall of income of the persons below poverty line) will be collected (if available). For the analysis, it is important that poverty reduction may be achieved through economic growth, through an improvement of the income distribution or (in the longer run) through an improvement in social indicators.

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Table 1. Evaluation matrix Debt relief

OBJECTIVES-MEANS	INDICATORS	SOURCES	EVALUATION CRITERIA
INPUT Debt relief expenditures and modalities; Policy dialogue.	Amounts spent, assigned and contributed; Conditions.	Documents for Dutch Parliament “Macro-exercise”, assessment memos for debt relief; Global Development Finance; National statistics; WB/IMF country reports.	EFFICIENCY
Comparison outputs and inputs →			
OUTPUT Reduction debt and debt service; Increase imports and government expenditure; Policy change and change in governance.	Total debt (nominal and net present value); Interest payments and amortisation; Balance of payments; Government accounts.	Global Development Finance; World Development Indicators; IMF; National statistics; WB/IMF country reports.	EFFECTIVENESS
Extent to which inputs via outputs contribute to outcomes →			
OUTCOME Reduction debt burden; Improvement creditworthiness; Investment.	Debt/GDP; Debt service/Exports; International credit ratings; I/GDP; I _p /GDP.	Global Development Finance; World Development Indicators; IMF; National statistics; Moody’s; Standard & Poor; WB/IMF country reports.	RELEVANCE
Extent to which inputs via outputs and outcomes contribute to impact →			
IMPACT Economic growth	Change in GDP	World Development Indicators; National statistics.	

Sustainable poverty reduction

Table 2. Possible aspects of the track record possible policy conditions for debt relief

Area	Policy / target
Macro-economic	Stock of international reserves Government deficit (% GDP) Government expenditure (% GDP) Exchange rate policies (devaluation)
Economic reforms	Tax reforms Public sector reform/civil service reform Composition of expenditure (defence) Privatisation of SOEs, public utility enterprises Liberalisation of goods markets: prices, domestic trade Liberalisation of foreign trade Liberalisation of labour market Financial liberalisation Other sectoral reforms
Political reforms	Elections Multiparty system Human rights observance Independent judiciary Free press
Governance	Transparency of budgeting Transparency of budget execution Accountability, to parliament, local councils, civil society Anti-corruption measures/sanctions Establishment of and respect for Audit Office Decentralisation
Poverty reduction	Social expenditure Social sector reforms Quality of social service delivery PRSP

Effective debt relief

Effective debt relief (DR_e) is debt relief that reduces actual debt service (DS_a)

To be computed from:

$$DS_a = DS_d - AA \quad (1)$$

$$DR_e = DR - PA \quad (2)$$

Where:

DS = Debt Service

DR = Debt Relief

Subscript a = "actual"

Subscript e = "effective"

AA = Accumulation of Arrears

PA = Payment of Arrears

Subscript d = due

DR_e is still an approximation, since debt relief covering debt service due that would never be paid in the same year, is still included. This often the case with Dutch debt relief on Dutch aid loans. If known, it must be subtracted from the figure for DR_e .

The effectiveness of conditionality

To the extent that debt relief was accompanied by conditionality on future policies, or by conditions regarding past policies or policy outcomes (“track record”) the extent of compliance with these conditions must be assessed (with respect to changes in policies and changes in governance, see Table 2). The track record has become important for Dutch debt relief decisions since 1996. The evaluation must therefore investigate whether and to what extent the conditions mentioned in the “macro exercise” were fulfilled in the case of the involved country. A second issue is whether changes in country’s policies or governance can be observed since 1996 that go in the direction of improving the “conditions” stipulated in the macro exercise. Evidence for this can be looked for in HIPC documentation on the country, Policy Framework Papers, Implementation Completion Reports of SALs and SECALs of WB.

In field studies, information can also come from interviews. Interviews should also shed light on the issue of whether the fact that the Dutch have used this track record as basis for decision making on debt relief, has to any extent *influenced* governance and policies (see below).

In the context of the HIPC initiative, the track record has become important since 1998 and involves an assessment of whether conditions stipulated in earlier IFI programs have been complied with satisfactorily. This can be found in HIPC documents on the country, but an independent assessment by the evaluator is also necessary. For example, earlier evaluation research showed that countries were not always treated equally. As of 1999, the HIPC conditions include the setting up of a Poverty Reduction Strategy Paper (PRSP). For the desk studies it is too early to investigate whether the HIPC track record or the requirement of a PRSP have induced a change in the country’s policies or governance. In the field studies, donor influence on policies and governance can be examined.

Donor influence (field studies only)

One thing is to establish that countries have complied (or not) with conditions set by the donor; another is to conclude on effective influence of donors. An earlier evaluation concluded that domestic political factors are most important in policy changes but there is also some room for donor influence, especially if we take other dimensions of the “policy dialogue” into account, i.e. other than the formal, directive conditions laid out by the IFIs and directly imposed on the recipient country’s government (White, 1999).

This means, first, that we have to take on a broad political economy perspective in explaining why reforms have come about. Donors usually tend to overstate their roles. Second, it means that we have to consider the policy dialogue as a process with four dimensions as discovered in the previous evaluation: the degree of formality, the channel of influence (directly to government, indirectly through IFIs or indirectly through contact with other donors), whether conditionality is directive (policy monologue) or non-directive, and which instrument is used (White, 99: 53-54; see also a useful table of possible channels and degree of formality on p. 37). Instruments can be debt relief, budget support, project aid or technical assistance. The earlier evaluation has shown that there may be some influence from donors, but that this is

usually carried out through less formal means, non-directive approaches and often using other channels.

The study of donor influence consists of two parts: i) examining Dutch influence, and ii) examining the impact of the HIPC conditions, in particular, the requirement that countries elaborate a Poverty Reduction Strategy Paper (PRSP) and do so in a participatory manner. On the first, field studies can first investigate whether the Dutch Embassy has an influence strategy that takes the different dimensions into account, and on which particular issues it focused. Second, by having interviews with government officials and with other donor representatives, the effectiveness of that influence strategy can be assessed. Since this may lead to subjective and not very exact statements, the approach will be to single out one or two issues (from the Dutch “track record”) on which the Dutch had or have a strong opinion – different from the government’s opinion – and examine what happened with this “conflict”. For the second aim, the same interviews with donor representatives and government officials can be used to assess the progress in coming to a PRSP. On this topic, interviews with representatives of NGOs and private sector (civil society) will also be necessary. If possible, also for this part a particular issue on which opinions differ will be singled out and followed, in order to improve the judgement on the extent of influence.

The marginal effect of debt relief: the accounting framework

The approach proposed here is similar to the one described for the Sida Evaluation of Programme Aid (see White, 1999: 94-6). It focuses on the marginal impact of debt relief. This is different from the often used “gap approach” which is considered not very helpful (White, 1999: 89-93). It means that we analyse the influence of effective debt relief (free resources) on balance of payments, internal accounts and on government accounts (a subset of the internal accounts), on the basis of accounting identities.

For the external account, the identity is the following:

$$M = AID + PCT + DR_e - DS + X + OKI + \Delta R + EO \quad ^{18} \quad (3)$$

If DR_e (see Annex 1) increases, one or more of the other items must change. The fact that DR_e is positive, implies that the absolute value of DS (debt service) has reduced (as established in 3.1). The impact of DR on other DS has been established in 3.2 and can be used here. Similarly, it has already been established whether DR was additional, i.e. did not lead to a reduction in aid (2.6). From all these, we can compute the net effective debt relief. It will now be examined whether this net DR_e leads to higher imports and/or reserves, which are the preferred responses for donors. This depends on the effects on OKI , ΔR , EO (often capital flight), X , and PCT . A reduction in X could be a negative effect of AID and net DR_e , for example due to Dutch disease effects. Decreases in PCT , OKI and EO (if capital flight) would also be negative responses to DR_e . Increases in PCT and OKI could be positive second round effects of DR_e .

A next step is to look at the composition of imports. Does the composition of imports change as a result of net DR_e ? The preferred outcome would be that imports of capital goods and intermediate goods would increase more than imports of consumer goods. This would point to a higher propensity to invest as opposed to to consume. For the internal account, the identity is the following:

$$I = AID + DR_e - DS + OKI + \Delta R + EO + S \quad ^{19} \quad (4)$$

The analysis for AID , DS , OKI , ΔR and EO is the same as above. The marginal effect of net DR_e on I depends on what happens to S , domestic savings.

¹⁸ M = Imports
 PCT = Private Capital Transfers
 DR_e = Effective debt relief
 DS = Debt service
 X = Exports
 OKI = Other capital inflows
 ΔR = Change in reserves
 EO = Errors and Omissions

¹⁹ I = Investment
 S = Savings

If savings diminish as a result of the additional free resources (as claimed by Easterly, 1999, for example²⁰), this would be a negative effect of debt relief. Ideally, DR_e would be accompanied not only by higher I but also by higher S.

The internal account can be broken down further, allowing for separate government income and expenditure. A change in domestic savings is the sum of changes in private saving and changes in government revenues. Investment can be broken down into government expenditure and private investment (see schemes in White 1999: 95).

According to the “fiscal response” literature (White, 1998), the marginal effect of aid (in this case, net effective debt relief) can be to reduce revenues. The analysis of government accounts must therefore begin by looking at what happens to government revenues. A second possible effect that must be examined is the effect on the deficit. If revenues and deficit remain unchanged, the whole effect of net DR_e is on increased expenditure, which is the intended effect of donors (resources should be freed for other – social – expenses). The third step is to look at the composition of expenditure. Does the freeing of government resources lead to increased priority for social expenditure or for public investment? The trends in the share of these sectors within total expenditure will be examined.

²⁰ Easterly (1999) does not distinguish between debt relief and effective debt relief, however; and his model that stresses “perverse incentive effects” also overlooks that the continued lending by HIPC countries is probably as much the result of (lending) supply factors than of demand factors such as a high discount rate.

Debt sustainability

In the long run, debt service can be sustainable if the following holds (Gillis et al., 1996: 414):

$$D/X = a/(g_E - i) \quad (5)$$

Where D = debt, X = exports, a = the trade gap $(M - X)/X$, M = imports, g_E = the growth rate of exports, and i = the average interest rate on debt.

This means that as long as the growth rate of exports is higher than the interest rate, a sustainable debt/exports ratio can be accompanied by a trade gap a (i.e. by increasing debt). A first issue to be examined is therefore whether the growth rate of exports is higher or lower than the average interest rate of the debt stocks over 1990-99 (as computed in 2.7). If it is lower, it can be argued that the country had a solvability problem and not a liquidity problem, and that new loans would not lead to a sustainable debt service.

The next component to analyse is the trend in the trade gap. This trade gap a is constant if the growth rate of imports is equal to the growth rate of exports, but this is not necessary for the analysis. In our study, the trade gap that leads to this increase in debt $a = (M - X)/X$ must be adjusted for the non-loans part of aid (i.e. grants, A) and for net effective debt relief (DR_e , see Annex 1), so we will look at what happens to

$$\frac{M - (X + A + DR_e)}{X}$$

If the growth rates of exports is lower than the interest rate, D/E is only sustainable if there is a surplus, so $M - (X + A + DR_e) < 0$.

Similarly, the debt/GDP ratio can be sustainable in the long run if (Gillis et al., 1996: 415):

$$D/Y = (v - s)/(g_Y - i) \quad (6)$$

Where $Y = GNP$, g_Y = the growth rate of Y , $v = I/Y$, the investment ratio, and $s = S/Y$, the savings ratio.

As long as g_Y is above the interest rate, a sustainable debt/income ratio can be accompanied by a continuing and constant savings gap ($v - s > 0$). This savings gap leading to increased debt must also be adjusted for grants (A) and for net effective debt relief (net DR_e), so we look at:

$$v - s - A/Y - DR_e/Y$$

If g_Y is below the interest rate, there must be a savings surplus. The evaluation will examine the trends 1990-99 in g_Y as compared to i , and of v , s , A/Y and DR_e/Y

For the government, we can assess sustainability in relation to the tax capacity (Fishlow, 1988: 220-21). In the long run, the debt burden is sustainable if:

$$D/T = \{(G - T)/T\} / (r_t - l) \quad (7)$$

Where T = tax income, G = government expenditure, r_t = growth rate of taxes.

In this part of the analysis, the sustainability of the debt burden for the government is not only determined by the external public debt, but also by the internal debt. This is a problem for Jamaica, for example. An average interest rate on total public debt will have to be computed. This average interest rate must then be compared with the growth rate of taxes. The latter will probably be related to the growth rate of GDP, but there can also be an independent effect due to, for example, tax reforms. If the interest rate is higher than the growth rate of taxes, the government must have a surplus $(G-T) < 0$ for debt service to be sustainable.

Annex 5

Social indicators

Social indicators to be analysed could be taken from the OECD/DAC indicators for social development (Nos. 4-15 of the 21 Indicators for sustainable poverty reduction). These are:

Indicator	Measure	Source
Children under 5 with underweight	%	WDR (WDI)
Enrolment in primary education (%)	%	WDR (WDI)
Share of people with fourth grade	% of adults	HDR (WDI?)
Alphabetisation	% of adults	HDR (WDI?)
Gender equality in primary enrolment,	F/m, in %	UNFPA or WISTAT
Gender equality in secondary enrolment	F/m, in %	UNFPA or WISTAT
Gender equality in alphabetisation	F/m, in %	HDR
Infant mortality rate	%	HDR
Child mortality rate	%	WDR (WDI)
Maternal mortality rate	%	WDR (WDI)
Deliveries under expert supervision	% of total	UNFPA
Use of contraceptives	% of married women	HDR
HIV ratio	% of adults	UNAIDS

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