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Philip Osei

Abstract. This chapter stresses the point that in Jamaica vulnerabilities in the face of external shocks have been aggravated by shortcomings in macroeconomic management, leading to high national debt. This situation has tended to distract from the national focus on social development as economic growth has stagnated over the past decade. In these circumstances, any lapses in governance and malfeasance in public administration is likely to exacerbate the country's problems. The chapter contends that public policy should be at the heart of any index of economic resilience, and that any serious analysis of the situation of SIDS should consider this as crucial.

1. Introduction

In the literature on economic vulnerability of small island developing states (SIDS) a consensus seems to have emerged on the salient characteristics that make small states vulnerable in the context of globalisation. Briguglio (1995; 2004) posits that the vulnerability of this group of countries stems from a number of inherent and permanent economic features, including:

- a high degree of economic openness rendering these states particularly susceptible to economic conditions in the rest of the world;
- dependence on a narrow range of exports, giving rise to risks associated with lack of diversification;
- dependence on strategic imports, in particular energy and industrial supplies, exacerbated by limited import substitution possibilities;
- insularity, peripherality and remoteness, leading to high transport costs and marginalisation from the main commercial centres.

It is important to note that most of the characteristics outlined above and the indices proposed to measure them assign major prominence to vulnerability with regard to external shocks. Not much importance has been given to internal management conditions that exacerbated inherent vulnerabilities of SIDS. I

Briguglio (2004), in a footnote, notes that "there are human induced measures (possibly as a result of bad policies or lack of awareness) which exacerbate the inherent vulnerability of SIDS" and these are explained in his paper as "man-made actions leading to the weakening of resilience against vulnerability".

While some of the natural characteristics of SIDS are permanent, the present author is of the opinion that internal policy-induced frailties might be what makes or breaks the economic viability of a SIDS. The realities of the Caribbean show that the vulnerabilities of SIDS indeed originate from exposure to external economic and natural shocks, the latter including also hurricanes and tropical storms, the occurrence of which threaten the very survival of the economy of whole islands. If, however, the negative effects of such exposure are exacerbated by weak

macroeconomic management and bad governance, the viability of an already volatile economy is seriously compromised.

The present author tends to agree with Bernal (2003) who argues that "most aspects of small size cannot be overcome by development policy but the question is could the performance have been better and if so would these economies have been more resilient to external shocks?" Bernal posed this question with regard to the advantages of development that were offered to the Caribbean Community by the extended preferential trade agreements, but which was not fully made use of by countries in the region to restructure and diversify their economies.

This chapter will focus on self-made economic vulnerability in Jamaica, referring to bad policies and weak administration leading to indebtedness and corruption, which have implications for long-term development of the country. In the debate on SIDS, trade vulnerabilities, external exposure and economic openness, and the effect of natural hazards have been extensively discussed. But not much has been written on internal policies which aggravate the situation, although recently the issue is being given more attention (see Witter et al., 2002)

The chapter surveys the Jamaican debt profile and its servicing which currently takes over 60 percent of government revenue. A UNICEF study in 2000 advocated that "no more than 20 percent of the revenue of the most highly indebted countries should be spent on debt servicing" (Mehrotra et al., 2000: 2). Even though Jamaica is a lower middle income country, its present plight might be approximating that of a heavily indebted poor country (HIPC).

The chapter also examines some of the measures that have been adopted to manage and ameliorate the situation, including expenditure cuts and new taxes.

2. The Jamaican Debt Burden

Jamaica is a middle income small island state with a population of about 2.6 million. According to the UNDP's human development index it has a medium human development status. The country has not been officially declared as a highly indebted poor country (HIPC) but it is one of the most highly indebted countries in the world. Its economy is also marked by significant inequities in income distribution. In 1989 the World Bank estimated that the top 20 percent of the population accounted for more than 60 percent of income. Levitt (1991: 2), writing about the origins and consequences of Jamaica's debt problem in 1991, argued that "the burden of debt service fell heavily on wage and salary earners who cannot escape income taxes deducted at source."

The ratio of external debt to GNP reached 206 percent in 1985 but it declined to 150 percent around 1989. At the same time, the ratio of external debt to export earnings exceeded 200 percent. These figures were considered as far above that of the 17 countries that had been identified by the World Bank as highly indebted "middle income countries" whose debt to GNP ratio was only 61 percent. By 1989 Jamaica's debt profile was "substantially higher than the debt to GNP ratio of low income African countries" (Levitt, 1991: 2).

However, Jamaica continued to be more attractive as a borrower because according to Levitt (1991: 2) the country had such a highly open economy with a ratio of exports to GNP in excess

of 65 percent (at the time), so that external creditors were better able to collect debt service from it than from some of the larger debtors with a relatively smaller export sector.

In the 1980s the country managed to keep up with its debt repayment because of two important factors: increases in export earnings and continued external borrowing. In addition to this, the country had access to balance of payments support in the form of loans and grants from official agencies, even though this was available only on condition of strict compliance with the financial targets and policy prescriptions of the International Monetary Fund and the World Bank.

The story is somehow different today because since 1997 Jamaica "graduated" from IMF borrowing and has been reluctant to go back to the Fund for stabilisation and structural adjustment loans. This policy stance has had implications for the structure of contemporary debt of the country in that domestic debt has grown substantially, most of which owing to the private sector, with serious consequences for macroeconomic management. As at November 2003 the public sector debt stood at 150 percent of GDP. At the same time, a series of mishaps have culminated in putting the public accounts in a precarious situation. These included the financial crisis of 1997, management scandals surrounding the use of the INTEC Fund in 2001 and the mismanagement of the housing development account at the National Housing Development Corporation (NHDC) in 2002.

The Debt Profile

Although the country has been a beneficiary of some debt relief from the UK Department of International Development (DFID) through projects that have been undertaken in the education sector, Jamaica does not generally, have access to such concessional loans as are available to HIPC countries. The implications of high interest rates on commercial loans and an unstable exchange rate have raised questions as to whether there will be any advantages derived from a dollarisation of domestic debt. In addition to this, there are problems relating to the lack of good governance in terms of the weak institutional capacity to manage the public sector and shortcomings in the structure of public accountability system. The latter are more within the influence of government and can therefore be addressed with some good measure of political will.

Domestic borrowing has steadily become the most important source of financing the public budget in Jamaica. It has grown consistently from J$22,980 million in 1993/94 to J$366,158 million in 2002/03. Local registered stock is said to be the dominant item in the Jamaican debt profile, and are in the form of fixed and variable rates issued with different kinds of coupon and maturity structures.

The external debt also had a mix of fixed and variable interest rate composition. As at November 2003, Fixed Rate Loans formed 75.8 percent of external debt and were valued at US$3,172.31 million and Variable Interest Rate Loans formed 24.2 percent and were valued at US$1,012.79 million (Debt Management Unit, 2004).

In an anatomy of the country's debt, Bear Stearns (2003) provided the following picture on recent trends in the Jamaican debt:

- Domestic debt had doubled as a percentage of GDP since 1998, from 47 percent to an estimated 94.1 percent as of July 2003. This situation is explained by the governments bailout of the financial sector after the crisis of 1996/97 and the creation of the Financial Sector Adjustment Company (FINSAC). In the liquidation of FINSAC, debt that had been owed to the Bank of Jamaica in the form of overdrafts was transferred to the liability side of the government's balance sheet. Williams et al. (2000) note that this has become a "permanent feature of the budget".
- In addition to this, "since 2001, the government had sharply increased its issuance of US$-linked and straight US$ denominated bonds in the local market. Combined, these classes of debt now account for 20.5 percent of the domestic debt, up from 13.9 percent in 2001."
- In the same way, debenture issuance also increased since 2001 and accounted for 17.5 percent of domestic debt. The debentures are generally of the fixed rate type and range in maturities from 18 to 36 months. With the increasing deteriorating health of public finances the government issued some debentures at interest rates which at time surpassed 25 percent.
- The stock of external debt declined since 2001 because the government paid off more than it received in new foreign financing. It is estimated that about half of the external debt is owed to multilateral and bilateral creditors.

Debt and Poverty in Jamaica

Historically, the Jamaican economy has had a high debt burden. Some scholars and practitioners including Kirkpatrick and Tennant (2002), Bear Stearns (2003), however, commend Jamaica for managing its debt and the financial crisis of the late 1990s. FINSAC, the Financial Sector Adjustment Company, has folded up because it has fulfilled its mandate of overseeing the financial sector adjustment programme, but its accumulated debt of J$108 billion (US$2.49bn) equal to 33.67 percent of the GDP which was converted as part of the national debt is now beginning to have an impact on the economy, and has also led to the deterioration of the fiscal deficit.

In response to the economic crisis of the 1960s and 1970s, the Jamaican government borrowed from abroad to finance the balance of payments deficit. Over the years there has been a continued reliance on external borrowing and as this increased so did debt service obligations.

Borrowing from multilateral financial organisations and increased debt servicing have major implications. Firstly, borrowing from organisations such as the IMF and the World Bank meant that the government had to implement structural adjustment programs that included economic policies such as increasing interest rates and devaluation and reduction in government expenditure among others. Debt servicing resulted in reduction of scarce resources from development in expenditure towards services for the poor. Secondly, the government's ability to act independently and in the interest of its electorate has been severely reduced because this has been compromised by the high debt owed to the commercial sector of the country.

Debt and austerity management strategies by the Jamaican government have included a reduction in government expenditure, wage freeze and increased taxation to generate revenue. There has been a wage freeze in the public sector and an increase in property taxes (especially on owners of

property valued between J$30,000 to 10 million). Wage freezes in tandem with high food prices (as a result of devaluation of the domestic currency) has led to a fall in the purchasing power of many Jamaicans.

The large share of debt repayment as part of total expenditure has compromised the role of government as provider of public services. Debt repayments have resulted in deep cuts in both recurrent and capital expenditure. This means that there has been a decline in both the construction of new health and educational infrastructure and the maintenance of existing ones.

Privatisation and the reduction in subsidies to both health and education have resulted in the implementation of user charges and an increase in the cost of access to these facilities. The consequences of the debt crises are felt mostly by the poor and more so among the vulnerable groups in the society, the children, women, elderly and disabled.

Unable to accumulate enough wealth to repay debts the Jamaican government borrows more to repay existing debt. Jamaica is therefore caught in a "debt trap". Kirton (1992) found that the social impact of structural adjustment was negative in areas such as health, education, welfare housing, unemployment and on food prices. He noted that budgetary allocations to vital social portfolios such as education and health, housing and social welfare experienced massive cutbacks, as an increasingly greater share of the national budget was diverted to pay for newly acquired and growing multilateral debt. These findings were corroborated by Alleyne (1999) and Levitt (1991) who also found that debt management strategies had a large impact on the health sector, and had serious implications for the poor people who rely heavily on public health facilities.

A recent study by USAID referred to the stifling impact of debt on the government's ability to invest in today's citizens and the leaders of tomorrow, as a result of the increase in the country's debt and the 63 percent of all government revenue used to service debt at the end of 2002. The report further argued that "in this economic context, social pressures are inevitable since after debt service and payment of public sector salaries, only 5.5 percent of the government's operating year budget is available for all other expenditures" (USAID, 2004).

Table 1 gives a general picture of development in Jamaica since 1989. It indicates trends in poor growth with decreasing poverty levels up to 1999 and the seeming stagnation after 2001. For a deeper analysis of the Jamaican development conundrum see Le Franc and Downes (2001).
Table 2 gives further credence to the argument on public expenditure- reduction from the mid to the latter part of the 1990s. It shows that expenditure on community services rose from nine percent in 1995, to 10.1 percent in the following year, deteriorating to 7.7 percent in 1997 and 1998 and increasing again to 9.0 in 1999.

3. Resilience Building Strategies

Jamaica shares many inherent economic vulnerabilities with other SIDS. However its domestic policies, particularly the debt burden, has exacerbated the country's vulnerability. In this section we examine a number of measures which could strengthen the resilience of the Jamaican economy. These measures include debt management strategies, undertaking public management

reforms to ensure value for money from the public expenditure on services, building social cohesion and anti-corruption measures.

Management of the National Budget and Debt

A historical analysis of the debt burden of Jamaica reveals that by 1985 the debt structure of the country was such that a high proportion of the outstanding debt was owed to multilateral financial institutions and donor governments and agencies. Robinson (1998) notes that bilateral creditors accounted for the largest share of the debt with 40 percent of the debt outstanding, while 38 percent was owed to multilateral lending agencies. At that time commercial banks accounted for only 11 percent of the total debt outstanding. This had implications for debt management because the structure limited the scope of future debt relief as multilateral debts were ineligible for rescheduling. From the 1980s to 1996, project financing, structural adjustment loans from the World Bank and balance of payments support from the International Monetary Fund remained the main sources of financial support for the Jamaican economy (Robinson, 1998).

In accordance with the adoption of structural adjustment programmes, the debt management strategy throughout the 1980s was largely predicated on the assumption that with economic stabilisation and adjustment, the country would be able to grow its way out of debt, over the medium term. It was hoped that with appropriate reforms and stimulus to the export sector, sufficient earnings would be generated to support debt repayment in the future. The main policy objective was therefore to seek interim relief on debt service payments while implementing economic measures to promote growth. With very little chance of obtaining multilateral debt relief, commercial bank and bilateral debts became the centrepiece of the country's debt management programme. However, the hope of sustained growth did not materialise.

As the situation became dire, the Government of Jamaica undertook an important institutional response. On April 1, 1998 the Ministry of Finance and Planning assumed responsibility for all debt management functions which were previously undertaken by the Bank of Jamaica. With this recentralisation, the core debt management functions including debt policy, strategy formulation, debt-raising activities, register and payment function for government securities and debt monitoring resided fully with the Ministry. The Bank of Jamaica however retained subsidiary functions such as conducting primary market issues including Treasury Bills auctions and effecting external debt payments (Ministry of Finance and Planning, 2004). A Debt Management Unit was established at the Ministry with the mandate to raise adequate levels of financing for the national budget at minimum debt service costs, and to pursue strategies to ensure that the national public debt progresses and is maintained at sustainable levels over the medium term.

Since the latter part of the 1990s, debt management has focused on generating primary surpluses from budgetary sources and Jamaica has been quite adept at maintaining these surpluses well into the 2004-2005 fiscal years. Between 1998 and 1999 and between 2002 and 2003 the country maintained an average primary surplus of over 10 percent of GDP. Internationally, most countries consider four percent of GDP to be too high, so according to Bear Stearns (2003: 3), though Jamaica's performance represents a considerable fiscal drag on the economy, and is politically difficult, to maintain, it has earned the government some credibility within the debt markets and the rating agencies.

Partnership and Social Consensus

Apart from the new measures towards good management of the national budget and debt, there seem to be a growing feeling that the nation needs a broad consensus on how to get out of this debt predicament. A social dialogue for co-operation was entered into between the Government of Jamaica and the Jamaica Confederation of Trade Unions (JCTU),culminating in a Memorandum of Understanding (MOU) on the 16th of February 2004 (Government of Jamaica, 2004). This model of social dialogue was fashioned on the Irish and Barbadian experiments of 1987 and 1993 respectively. Four main factors have motivated the formation of this partnership. The partners acknowledged that the country faces (a) a high debt to gross domestic product ratio (b) a large fiscal deficit (c) low economic growth and (d) low employment creation" (MOU for the Public Sector, 2004: 1). The objectives of the agreement relate to wage restraint, macroeconomic management and development of the public sector. It is estimated that the signing of the MOU will save the Government J$5 billion in expenditure on wages in the 2004/05 budget.

Controlling Corruption

Reference here is again made to recent scandals of misappropriation of public funds, for example, the NetServe scandal associated with the management of the INTEC Fund, and the National Housing Development Corporation imbroglio in which responsibility does not seem to have been properly established, thereby warranting a public enquiry. These scandals led to the loss of millions of dollars. The crucial issue here is how has Jamaica's anti-corruption infrastructure performed in the midst of these mounting economic difficulties.

It is important to assess the effort put in by the People's National Party administration and undertake critique of how anti-corruption institutions have fared. The main anti-corruption laws include:

- The Corruption Prevention Act of 2000 which derives essentially from the Inter-American Convention against Corruption of 1996 to which Jamaica is a signatory.
- The Public Bodies Management and Accountability Act.
- The Financial Administration and Audit Act.
- Auditor General Act.
- Money Laundering Act.
- Representation of the Peoples Act.
- Parliamentary Integrity of Members Act.
- Contractor General Act.

Since the mid-1990s most of these pieces of legislation have been amended significantly to address the growing sophistication of corruption and crime in general. In addition to this, strengthening of the criminal justice system has been attempted by improving the investigative capacity of the office of the Director of Public Prosecution to enable him to probe into the financial crisis and bring some of the culprits to court. This was done in a bid to recover monies lost to the state through the government's blanket intervention of the financial market at the height of the crisis to avert total collapse of the system.[1]

For an update of the investigations and the measures that have been taken by the government see The Jamaican Herald of 28 March 2004

A general critique of the anti-corruption in Jamaica, however, is that in spite of the numerous provisions on the statute books, enforcement is weak and most of the institutional infrastructure for implementing public policy is under-resourced. This accounts for the cyclical nature of poor governance in an otherwise moderately developed small island state. Apart from the financial problems, there is a human attitude element to contend with, which is related to the lack of social capital. Peter Phillips, the Minister of National Security, in a public debate at the University of the West Indies campus at Mona in April 2003, suggested that in addition to normal law enforcement Jamaica required a remedy more akin to an ethical mobilisation of the people.

Improving Governance in General

In building resilience against the known inherent disadvantages of Jamaica, more needs to be done by way of deepening the public sector reform programme with which the government has been engaged since 1996. The reform of public sector entities into executive agencies has improved public accountability and upgraded customer services in general (Davis, 2001; CCDA, 2003). Additional resources would have to be sought through sound budget management to support the implementation of Ministry Paper Number 56 of 2002 which set out the vision and strategy for substantially improving public administration by 2012. Delroy Chuck of the Jamaica Labour Party, in the public debate just mentioned, however, noted improvements in governance needs to be underpinned by visionary leadership and trust from the general public to be successful. What this argument points to is that the solution to Jamaica's resilience building requires the support of its citizens.

4. Conclusion

Jamaica, like many other SIDS, is economically vulnerable, in the sense that it is exposed to external economic shocks, mostly due to its high exposure to international trade. The country is also prone to natural disasters, as evidenced by the recent occurrence of hurricane Ivan. This inherent vulnerability could be to an extent mitigated with appropriate macroeconomic management and good governance.

In the case of Jamaica, economic vulnerability was exacerbated by the factors that led to the high national debt. High debt rates have tended to distract from the national focus on social development, as economic growth stagnated over the past decade.

In the future, lapses in macroeconomic management and malfeasance in public administration are likely to worsen the country's problems. It was with this in mind that this chapter contends that good of public policy should be at the heart of any index of resilience.

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