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**MID-TERM EVALUATION  
OF THE  
EXPORT DEVELOPMENT AND  
INVESTMENT PROJECT (EDIP)**

**IQC Contract No. PCE-0001-I-00-2051-00**

**Delivery Order No. 1**

**Prepared for:  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT  
Kingston, Jamaica**



**Prepared by:  
Ronald J. Ivey, Team Leader, Deloitte & Touche  
Michael V. Julien, Carana Corporation  
William A. Kedrock, Chemonics International  
Robert Toso, Socimer International Corporation**

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## TABLE OF CONTENTS

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	<b>Page</b>
<b>FINDINGS AND RECOMMENDATIONS</b>	<b>i</b>
<b>SECTION I BACKGROUND</b>	<b>I-1</b>
A. Purpose of the Evaluation	I-1
B. Composition of the Evaluation Team and Methodology	I-2
C. Economic, Social, and Political Context	I-2
D. The Foreign Operations, Export Financing and Related Program Appropriations Act: Section 599	I-5
E. Management Information System	I-5
F. Organization of the Report	I-6
<b>SECTION II TRADE AND INVESTMENT</b>	<b>II-1</b>
A. Jamaica Promotions Ltd.	II-1
B. International Executive Service Corps	II-12
C. Tourism Action Plan Ltd.	II-20
D. National Development Foundation	II-25
E. Small Business Association of Jamaica	II-30
<b>SECTION III ECONOMIC POLICY REFORM</b>	<b>III-1</b>
A. Review of Policies	III-1
B. Activities Undertaken by USAID	III-14
C. Conclusions and Recommendations	III-15
D. Recommendations	III-17
E. National Action Plan	III-18
<b>SECTION IV PRIVATIZATION AND EMPLOYEE SHARE OWNERSHIP</b>	<b>IV-1</b>
A. National Investment Bank of Jamaica	IV-1
B. Employee Share Ownership	IV-16
<b>SECTION V ACTION PLAN</b>	<b>V-1</b>
A. Jamaica Promotions Ltd.	V-1
B. International Executive Services Corps	V-3
C. Tourism Action Plan	V-4

---

**TABLE OF CONTENTS**  
**(continued)**

---

	<b>Page</b>
D. Small Business Initiatives	V-7
E. Economic Policy Reform	V-8
F. Privatization and Employee Ownership	V-11
G. Section 599 and Its Effect Upon Future Project Activities	V-11
H. Operational Implications	V-14

**APPENDICES**

A. PERSONS INTERVIEWED	A-1
B. BIBLIOGRAPHY	B-1
C. ACRONYMS	C-1
D. REVIEW OF COMPANIES PRIVATIZED OR IN PROCESS DURING THIS PROJECT PERIOD	D-1
E. A GENERIC SECURITIES COMMISSION: STRUCTURE, OBJECTIVES, OUTPUTS, AND A WORK PLAN FOR TECHNICAL ASSISTANCE	E-1

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## FINDINGS AND RECOMMENDATIONS

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### A. Overall Findings

- This project has covered a broad range of activities—22 discrete activities in total—but has focused most of its financial resources upon JAMPRO and NIBJ.
- The project has produced its best effects where USAID funding has resulted in the provision of professional technical services directly to private sector enterprises that could absorb the services, e.g. IESC's volunteer program, JAMPRO's direct technical assistance to garment manufacturers, and the Peace Corps vendors' program.
- The project has also shown excellent effects where local professional technical services were utilized to create investment opportunities, specifically the National Investment Bank of Jamaica's utilization of local consultant services to prepare companies for privatization.
- The project has also created some potentially positive results through the provision of technical services to assist in preparing draft legislation for the Fair Trade Competition Act of 1993 and the Employee Share Ownership Act (expected in 1993). The support of the National Action Plan activity, although embryonic, is seen as a means to continue to develop and amend a solid economic policy framework.
- The project has also supported a number of activities that do not appear to show promise in terms of meeting project goals and objectives: the TAP facade and small projects program, the NDF institutional strengthening activity, and the SBAI business planning and implementation activity. In general, the impact of the project is diminished and diffused by these small projects that divert USAID management resources.
- The Fiscal Policy Monitoring (or Management) Unit that USAID has committed to support at the Ministry of Finance appears to be an excellent idea to assist the government with improved fiscal analysis, policy development, and fiscal management. Budget deficits have been the cause of continued inflationary forces within the economy. We also see possible areas of assistance that USAID should consider in creating an independent Bank of Jamaica, which would stabilize the monetary management of the country, and in tax enhancement and customs reform, which would further assist to balance the budget.

- Section 599 compliance will strongly constrain certain promotional activities that can be financed under this project and USAID has taken appropriate action to conform with this law.
- The present counterpart relationship with JAMPRO is not based on evolving project realities; and USAID should carefully reconsider this relationship.
- The Management Information System that USAID has attempted to formulate and implement for this project was too grandiose and complicated, simply has not worked and should be abandoned. It should be replaced by a simpler system that can be accommodated in a LOTUS 1-2-3 program and that will involve easy-to-gather data that can be collected by OPE staff.

## **B. Future Directions for the Project**

Because the project is under consideration by USAID for amendment, the following factors should be taken into consideration:

- Because of the obvious maturation in the Jamaican economy in terms of wealth accumulation, stock market capitalization, strength of the financial sector and the extensive development of certain sectors (e.g., tourism, garments), the study team believes that the amended project should transform itself to address these realities. The focuses under the amended project should be:
  - Policy Implementation
  - Privatization
  - Securities Exchange Regulation/Stock Exchange Modernization
  - Business Development (including tourism).
- Business development activities should be established only if they fit within the Section 599 framework recommended within this report and if they involve mechanisms that can deliver useful technical assistance at the firm level where it can be well-absorbed. All future technical assistance should be established only if the activity will directly achieve the project goals, i.e. creation of investment/expansion; exports; or employment.
- USAID should cut activities, at the appropriate time (obligation is exhausted; obvious lack of drawdowns), that do not show promise in meeting project goals. Specifically, present activities that fall in this category are: support to TAP, NDF, and SBAJ.
- USAID, due to the changing nature of project activities recommended for the amended project, should consider changing its counterpart organization to the Ministry of Finance, while continuing to provide funding to JAMPRO for those activities that continue to meet project goals.

## C. Specific Findings and Recommendations by Project Component

### C1. Jamaica Promotions Ltd.

#### C1a. Findings and Conclusions

- **Grant Utilization.** \$1.8 million obligated/\$1 million committed; \$900,000 disbursed 03/93. Utilization rate 50%; should be 75% (\$1.3 million).

<u>Areas of Technical Assistance</u>	<u>Amount</u>	<u>Utilization Rate</u>
Garment Sector/Long-term Consultants	\$392k	50%
Furniture Sector/Long-term Consultants	\$165k	50%
Data Processing/Industry Study	\$87k	28%
Film Industry/Marketing via L.A. law firm	\$61k	100%
Trade Promotion/Bobbin and DEMA shows	\$33k	20%
Small Business/Enterprise Center	\$34k	20%
JAMPRO assistance/Grant Management Support	\$12k	10%

- **Other donor programs.** Four programs: CANEXPORT (\$2.4 million over three-years); TARGET EUROPE, (\$3.5 million over two-years) TARGET JAPAN, a CFTC export program and UNIDO's garment, small enterprise and institutional support mini-projects.
- **Institutional strengthening plan.** Good progress. JAMPRO is meeting IDB requirements. Implementation well advanced. 65% of recommendations accepted of which 95% adopted. Cost recovery is impressive - 7%, 11% and 20% of operating budget for 1992, 1993, and 1994 (est.) Reluctance to privatize services; concept may be premature. Lee Clarke Chang of January 1993 contract to develop a cost recovery mechanism.
- **Impact by project goals and purpose.** Impact on six garment firms, one furniture and one data entry firm assessed. Broad based growth achieved. High employment generation in garment sector; good signs of export growth, investment and product diversification. Almost no linkages with indirect exporters. Garments and Film Industry assistance excellent; data processing study could lead to high potential impact; trade promotion moderate; furniture limited impact and terminated in 1992. The furniture consultant has still not filed a final report.
- **Factors affecting implementation.** Key reasons: JAMPRO reorganization and project implementation process. Minor reasons: Section 599, periodic aspect of some activities, and lead time to adjust implementation plans for Section 599, furniture program termination, turnover of OPE team and the PIL approval process.

## **C1b. Recommendations**

- **Funding.** Use no more than \$325k of unspent funds: garment contract extensions to March 1994 (\$120k); data processing training (\$135k); block grant administration (\$20k); Contingency/Miscl (\$50k).
- **Eligibility.** USAID should develop Section 599 compliance framework. Criteria for compliance are included in this report. OPE should approve the use of funds based on annual combined budget and action plan submissions from JAMPRO. Subsequently, JAMPRO should be asked to submit quarterly reports showing tasks accomplished; utilization of funds against budget for the quarter (with supporting documentation); planned activities and tasks and budget allocation for the next quarter. OPE would thus approve JAMPRO's annual program once a year and would monitor and amend approved funding levels as required.
- **Project approval system.** Modify to improve grant utilization and disbursement efficiency.
- **Project amendment opportunities.** Three prospects: 1) Consider JAMPRO proposals for continued TA to upgrade the garment and information processing sectors; 2) Explore opportunities to develop trade/export information system; and 3) Look at possible programs under JAMPRO's Industry Modernization Program (other growth sectors like marble; cementing footloose industries, technology transfer etc). Specifically, it is not recommended that USAID fund JEA and AMC proposals because they would only be feasible if their members are willing to pay full costs for the services, which is unlikely. The usefulness and utility of such information systems in small economics is somewhat questionable. Regarding the Industry Modernization Program, JAMPRO perceives the need to upgrade its emerging industries from primary production activities (i.e., limestone and marble) and move from basic business support systems to more intermediate and advanced support systems (training, trade information systems, technology transfer, developing local garment design capabilities, and improving the quality of product manufacturing services).

## **C2. International Executive Service Corporation**

### **C2a. Findings and Conclusions**

- **Grant utilization.** \$500k for LOP/\$ 385K obligated/\$250K disbursed 03/93. Utilization rate 50%; should be 75% (\$375k).
- **Technical assistance delivered.** 114 projects completed of which 35 (a third) were VE projects were EDIP-funded. No ABLEs, TIS or privatization activities as planned. 26% (9 projects) to export clients.



- **Impact by project goals and purpose.** Moderate. Broad based growth achieved. Limited employment generation (one client) and signs of export growth, investment and product diversification. Almost no linkages with indirect exporters. Impressive impact of assistance to non-A.I.D-funded projects. Greater impact achieved with larger (non-A.I.D) clients. Marginal effect on employment, real incomes, exports and investment. Impact dependent on clients' absorptive capacity.
- **Impact on women.** One third of the 35 clients. Two women-owned operations showed highest absorption of IESC TA and moderate growth in exports and employment.
- **Cost recovery and sustainability.** Cost recovery at 11% of direct cost of VE interventions. IESC more cost effective than consulting firms. Moderate subsidy because non-A.I.D clients are paying more than actual direct costs. IESC's overall cost recovery more successful than Morocco's, Kenya or the Eastern Caribbean's. However, sustainability not likely if Mission wants IESC to continue to focus on small firms.
- **Factors affecting program delivery.** Limited linkages; lack of creative marketing; limited absorptive capacity of small clients; field office at full capacity; FX market manipulation, inflation and borrowing costs.
- **Management information system.** Current status is reasonable. Needs limited and simple upgrading.

#### **C2b. Recommendations**

- Use the remaining \$250K for continued cost sharing VE and ABLE projects but targeted at larger firms. They have greater absorptive capacity. Also this is where most of the entrepreneurial spin-offs, export growth, employment, new investment and FX increases will first come from. Stronger focus on hard currency export projects. Explore opportunities for post privatization TA to new companies. Upgrade MIS and impact monitoring system.
- USAID participation in the tourism sector should follow the same principle that has made much of the IESC work successful—provide technical professional services directly to the private tourism sector.
- Assistance based on above criterion could be provided by IESC to a client group that might include restaurants, small and medium-sized hotels, cottages, bed and breakfast operations, Chambers of Commerce, attraction operators, etc.
- USAID should use EDIP funds to carry out an assessment of potential demand for these services, using the information to guide decisions regarding structure, size,

and guidelines for the service. The consultant should not be from IESC, if IESC is consider the likely manager and provider of technical assistance.

### **C3. Tourism Action Plan Ltd. (TAP)**

#### **C3a. Conclusions**

- TAP has completed only two small projects under EDIP and despite reducing local contribution to 25%, TAP is not likely to move all of the remaining funds.
- Although not the intended beneficiary, the Chambers of Commerce appear to have benefited most from TAP. The activity's impact on exports and investment is minimal and not objectively measurable.
- TAP, through its requested budgetary support, is becoming a quasi-government bureaucracy. TAP appears to lack the management capabilities/capacity to successfully carry out its new and expanded functions. While there are a number of donors working in tourist related areas, none are working directly with the private tourism sector.

#### **C3b. Recommendations**

- TAP has set a July 1 deadline for the Chambers to submit all necessary documentation, e.g., budgets, work calendars. This date should be used by USAID to determine whether it will continue to support this activity, eliminating those activities which are not likely to be achieved or for which requested information was not forthcoming. It appears that \$80,000 to \$120,000 can be transferred to other project activities during the final year of EDIP.
- USAID should not continue support to TAP under an amended EDIP.

### **C4. National Development Foundation of Jamaica (NDF/J)**

#### **C4a. Conclusions**

- The NDF/J, as a lender to small businesses, appears to have progressed over the years, but its annual number of loans is low and cost of operations is high.
- NDF/J has been slow to tap USAID funds because of fundamental differences of opinion on the use of those funds. NDF/J now appears to acknowledge the need for market rates and more efficient operations.
- NDF/J is receiving assistance, grants and loans, from other donors.
- NDF/J has required a fair amount of USAID management time given the funding involved and the lack of draw-downs of the funds.

- Direct impact on investment and exports is difficult to measure.

#### **C4b. Recommendations**

- USAID should wind down its assistance to NDF/J, honoring any firm commitments it may have, but not committing to additional assistance under EDIP. It appears that \$100,000 may be available for other EDIP activities.
- Given USAID's existing micro-enterprise development project, it is recommended that USAID drop NDF/J from an amended EDIP. While not considered necessary by the evaluation team, if the need arose to work with NDF/J, this should be done through the Micro-Enterprise Project.

#### **C5. Small business Association of Jamaica (SBAJ)**

##### **C5a. Conclusions**

- Although slow to start and finalize the process, SBAJ appears to be moving forward on development of a business plan.
- Direct impact on investment and export is difficult to measure.

##### **C5b. Recommendations**

- USAID should honor its commitment to SBAJ for funding of a business plan at an estimated cost of \$18,350.
- USAID should not extend support to the SBAJ through EDIP beyond this business plan development activity. If considered necessary, such assistance should be provided through the Micro-Enterprise Development Project.

#### **C6. Privatization and Employee Ownership**

##### **C6a. Conclusions**

- NIBJ's Privatization Division functions with a small staff, 12 professionals and 15 support staff, who provide technical input and contract for professional services to implement the privatization program: divestiture strategy advice; accounting and auditing; going concern, equipment and machinery and real estate valuations; legal advice, including incorporation of new companies; feasibility studies (of contracting out, employee buyouts, concessions); and advertising of companies for sale.
- While the overall privatization process is slow, NIBJ is moving at about the same pace as USAID-supported projects in Malawi; Honduras; Tunisia and Sri Lanka. Further, NIBJ's program is tightly conditioned by the IMF and the World Bank

and to a lesser extent by IADB and USAID. It is unlikely that USAID can affect the speed of the process much; however, the joint conditionality of the IMF and World Bank will compel the program to move forward. Nevertheless, there is no way for NIBJ to achieve the IMF goals of finishing the process by the end of 1994. The process could continue for another 5 years. The program is now working on some of its most difficult privatizations: Air Jamaica; sugar estates; banana estates; NWC; PSC; Railways; Minard Estates (cattle husbandry); PETROJAM refinery; etc.

- NIBJ is functioning responsibly and quite competently inasmuch as the provision of technical inputs is concerned. NIBJ cannot itself compel the process to move more quickly primarily because most divestitures are organized around Divestment Committees which are cumbersome and bring to focus many political considerations. The process has slowed further under the present government because the Prime Minister uses a consensus building approach as compared to his predecessor who pursued a more decisive, "fast tracking" approach.
- The lack of leadership at NIBJ with the resignation of its president, Peter Bunting, presently poses a problem; the process could be further slowed if his replacement does not possess a similar business acumen and the ability to move divestitures strategically.
- Local professional services provided under USAID-funded contracts rate from excellent to above average. Some contractors are included in a panel contracting arrangement that does not achieve the desired results, i.e. fast contracting and competitive bidding. There may be a tendency through this arrangement to rely too much on local consultants when highly specialized technical assistance may be required (e.g. Air Jamaica).
- During the 3 years of the project to date, 16 privatization transactions were completed, with USAID assistance utilized for 12 transactions (notable exception: Montpelier/Shettlewood Properties, because it was to become a citrus project). Proceeds from these transactions totalled nearly US\$75 million. Of these, share sales accounted for 90% of the proceeds and asset sales accounted for 10%. Leases accounted for a minuscule part of proceeds (which is good). We note that approximately 25 privatizations are in-process and many of these are being implemented with USAID-financed technical services.
- The share sales have had a strong impact upon capitalization of the stock exchange; and asset sales have resulted in the activation of idle assets for a positive economic benefit (examples: Jamaica Fisheries Complex and Kingston Dry Dock Ltd.). Some of the later share sales of major companies and disposal of minority shareholdings have not resulted in economic impact.
- USAID supported the analysis of the economic impact of three major privatizations (TOJ, CCC and NCBG). This analysis showed substantial increases in exports by

TOJ and CCC; substantial increases in investment by TOJ and NCBG; and very substantial employment increases at TOJ and a marginal increase at CCC. Our evaluation shows that subsequent privatizations have also resulted in positive impacts in terms of post-privatization investments (Negril Cabins; Jamaica Soya Products; Kingston Dry Dock; Montpelier/Shettlewood); employment (National Cassava Products; Montpelier/Shettlewood; Darliston Community Foods); but less in exports. The Montpelier/Shettlewood project will ultimately create a strong export impact.

- The privatizations extend across many sectors: food production and processing, infrastructure, construction, tourism, and fisheries; thus, the impact is widely felt.
- USAID supported other useful activities: Professor Carl Stone's assessment of the impact of privatization upon the general public, workers and management; Stone's evaluation of the privatization of markets and garbage collection; an investment promotion conference (in conjunction with MIGA); and privatization training for NIBJ staff in Washington. According to Stone's social impact analysis, the Jamaican public basically supports the privatization process because of perceived improvements in services and this increases as the transaction steps begin.
- It is unlikely that more than a handful of the future privatizations (Hotel Pegasus, the final tranche of Caribbean Cement and perhaps Trans-Jamaica Airlines) will involve public offers because of the lack of a positive financial track records of most of the companies remaining in the NIBJ portfolio. It should also be noted that some of these cases will involve significant staff reductions at the point of sale.
- USAID has supported Jamaica's first employee buyout, which turned around a potentially explosive situation at the Government Printing Office. The new company, Jamaica Printing Services Ltd., is not yet on a sound footing and might benefit from IESC or other assistance. Four to five other government operations are apparently lining up to follow GPO's lead. If these companies fail, it would have a negative impact upon the privatization program.
- Compared to many other countries going through the privatization process, the employees affected by the process in Jamaica have been given very small ownership participations (2-6%) in the privatized companies.
- In support of ESOPs, USAID has paid for the services of a U.S. ESOP expert; has provided funds for a local law firm to draft the now-proposed legislation; and has provided funds to an accounting firm to analyze the tax effects of the proposed legislation. The result of these efforts has been good, and it appears that Jamaican companies are ready to take advantage of the legislation when passed.
- A review of the NIBJ proposals for an Economic Empowerment Revolving Fund has brought us to concur with USAID in not funding this proposal because in fact

such borrowings can be guaranteed at commercial financial institutions by pledging the ESOP shares as collateral. NIBJ has now proposed to the IADB that such assistance be provided through the MIF. In the case of the proposal for a Technical Assistance Matching Grant Program, we believe there may be some legitimate costs that USAID might want to cover to stimulate the formation of ESOPs.

- No other donor is supporting the privatization effort in the broad-reaching and effective way that USAID is and no other donor has grant funds available for this purpose. As the proceeds of the sales must be remitted to the Treasury, NIBJ has no source of funds other than a budget allocation for the provision of technical services. Primarily because of the contracting arrangement for technical services developed by USAID and NIBJ, we believe that this is an excellent utilization of grant funds provided by the U.S. government.

#### **C6b. Recommendations**

- USAID should continue to support the privatization program in Jamaica and should be prepared to support it well beyond 1994.
- If the project is amended, USAID should ask that the number of panel contracts be increased and that an IQC-type bidding be required, which generally requires contractors to submit a brief proposal on what will be done, who will do it, c.v.'s and budget). Three such bids should be requested and these along with NIBJ's rationale for selecting the contractor should be filed at USAID. When the work is concluded, the deliverables should be submitted by NIBJ to USAID to be filed along with the bidding documentation. This arrangement would not apply to general strategic advice.
- To speed up the process, USAID should consider offering to underwrite the costs of a local consultant who can work inside NIBJ to troubleshoot the process and assist NIBJ staff members to expedite the process at the Divestment Committee level, monitor professional service contracting and determine if specialized expatriate assistance is required. This might be a part time position.
- USAID should urge the newly appointed NIBJ president to undertake a 2-week training course in privatization so that he/she will be up-to-speed with the staff. USAID should also fund additional training for staff members: specific seminars where they may gain exposure to the manner in which other countries have resolved complicated problems similar to those now faced by NIBJ; and in valuation and finance as they pertain to privatization. USAID and NIBJ might want to host closed door sessions in Kingston where experts that have worked on the privatization of airlines, sugar mills, quota leasing and other timely topics would be invited to join round tables of the Divestment Committees and relevant NIBJ staff.

- To the extent that funds are available under the current EDIP, USAID should offer to underwrite the legal costs of forming ESOPs in companies after their privatization, on the condition that the employees' participation would be at least 10 percent.
- If the EDIP is amended, USAID should study the need for providing assistance through NIBJ to contract the services of local firms that will provide placement, training and small business development assistance to lighten the negative impact upon employees who may be laid off as a result of the privatization process.
- USAID should, in every opportunity where it is feasible, urge NIBJ to sell a portion of the shares to the general public through a public offering. This will further capitalize the stock market and broaden investment opportunities.
- USAID should encourage IESC or consider other arrangements to provide services to employee buyouts such as Jamaica Printing Services Ltd. to help management resolve managerial, financial, inventory, technological and marketing problems.

## **C7. Economic Policy Reform**

### **C7a. Conclusions**

- USAID's assistance in economic policy reform has been limited, but cost-effective and quite successful.
- USAID financed a study costing \$148,000 to develop the concept of a Fiscal Policy Monitoring Board to be located at the Ministry of Finance. The Ministry is supportive of the concept and advertisements for the personnel for the Unit have been placed. USAID has earmarked \$1 million to support the Unit, which also will receive support from the UNDP.
- USAID has provided \$138,000 to prepare the draft legislation, preparation of instructions for associated regulations, and public relations regarding the proposed Act and the establishment of a Fair Trade Commission. the Fair Trade Competition Act was passed during the evaluation.
- USAID provided \$29,000 for a computer system and short-term training for the Ministry of Finance and training for two Jamaica Stock Exchange staff members at an SEC conference.
- USAID has committed itself to helping the GOJ strengthen the securities market through the establishment and operation of the Securities Commission, and the strengthening and modernization of the Jamaica Stock Exchange (JSE). the evaluation team supports this activity as the securities market subsector is the most vibrant of the entire financial sector and holds a high level of potential for the

generation of new private investment, and consequently, employment and foreign exchange.

#### **C7b. Recommendations**

- **USAID should proceed with the planned assistance to the FPMU, which should be conditioned on the clear definition of an agenda of technically sound projects with clearly stated responsibilities, timetables, and budgets. The evaluation team concurs with this support and believes that the institutional strengthening involved will place the Ministry of Finance at the center of economic policy formulation and implementation.**
- **USAID should also provide technical assistance for the establishment and operation of a Fair Trade Competition Commission. Areas to be addressed include appointment and removal procedures and the means to encourage additional competition.**

#### **C7c. Recommended New Activities**

- **USAID should provide the Securities Commission with technical assistance, training activities and commodities to become operative, and to gain the required momentum, experience and strength as an institution. It must not only be a supervisory entity, but one which implements reform and promotes the development of the securities market. Properly organized and effectively operated, a securities commission can be a very important catalytic factor in the reform process, specifically vis-a-vis privatization, and for both greater competition and modernization in the financial sector.**
- **USAID should also support the modernization of the Jamaica Stock Exchange. This too will require technical assistance, training and commodities to modernize its systems and operations to help establish the private sector infrastructure that will make it a modern exchange, be able to handle a greater volume of transactions and variety of financial instruments, and bring its operations up to international standards.**
- **USAID should also consider providing technical assistance to the Bank of Jamaica (BOJ) to determine what steps are necessary to transform the BOJ into an independent, technical organization responsible for formulating and implementing Jamaica's monetary policy and for the regulation of the financial sector. A second phase would entail the provision of technical assistance to prepare the necessary amendment to the original Bank of Jamaica Act.**
- **USAID should also consider providing technical assistance to strengthen and modernize Jamaica's Customs and Excise Department (CED). Its collections account for approximately 30% of the country's revenues, yet it has massive deficiencies in terms of its customs activities, procedures and personnel. Estimates**



are that it loses approximately US \$135 million per year through fraud and corruption or the equivalent of Jamaica's annual budget deficit. Technical assistance, training and commodities would be required to revamp personnel procedures entirely, and to automate, streamline, standardize and rationalize customs activities and procedures. Technical assistance would also be needed to help institute legislation to strengthen the CED and to insure that certain tax reform measures which would increase collections are implemented.

#### **C7d. NAP**

##### **C7d(1). Conclusions**

- In current economic environment, there is a potentially important role for NAP to play in furthering and implementing an economic reform agenda. However, NAP is off to a very slow start. The proposed workshop can be used to put NAP on track.
- NAP could have public relations problems; its staff may require assistance and close attention.

##### **C7d(2). Recommendations**

- Besides using the retreat to set priorities among critical success factors, the proposed workshop should also be used to establish plans of action for the most important activities. These action plans should address:
  - Who will carry out the action: NAP's secretariat or task force?
  - Who should be asked to assist the secretariat or participate on a task force?
  - Who among those working with the secretariat or participating on a task force will be responsible for the output and keeping the process on schedule?
  - Benchmarks for determining progress, e.g., dates by which SOWs should be prepared, date by which action should start, intermediate accomplishments, date by which action should be completed, and what will constitute completion, e.g., proposed legislation, new operating procedures, policy position paper, etc.
- USAID should urge NAP to engage a facilitator for the workshop in order to achieve the above.
- USAID should support the use of NAP funds to engage a law firm(s) for the purpose of drafting suggested laws or regulations, where these are to be the expected output of NAP's action.

- **NAP needs to legitimize the process. This should be part of each action plan. Possible means of legitimizing the process include:**
  - **Adequate participation by those who are likely to be affected**
  - **Use of outside consultants**
  - **Use of public debates**
  - **Objective research**
- **When considering an intervention, the Steering Committee should look at the likely timeframe for accomplishing the task, as well as its potential impact on investment and the practicality of the intervention. Specifically, the Committee should look for near-term interventions that offer the possibility of early successes. Such accomplishments will garner increased support for the process.**
- **The Steering Committee should look to develop a communications strategy which keeps the public informed as to its agenda, timing for completion of agenda items, progress, obstacles, and successes. This will help build consensus.**
- **To enhance the abilities of the Secretariat, outside technical assistance should be encouraged whenever feasible. The relationship with PSOJ's economic committee should be strengthened by formalizing it as a resource for NAP.**
- **NAP may be a useful entity for a number of years. However, if PACD of March 1994 NAP has not achieved solid progress, USAID should not continue funding.**
- **If NAP does demonstrate success at establishing and completing an agenda, USAID should continue its financial support under an amended EDIP.**
- **It is not recommended that USAID use PSOJ in an implementing agency capacity beyond its current responsibilities for NAP.**

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## **SECTION I BACKGROUND**

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### **A. Purpose of the Evaluation**

The purpose of this mid-term evaluation of the Export Development and Investment Project (EDIP) is to determine whether the project has been achieving its broad purposes of increasing exports and diversifying investments. The start-date for this project was March 1990.

The project goal as set out by the Project Paper is to stimulate broad-based economic growth in Jamaica, resulting in increased levels of employment and higher real incomes. The project purpose is to increase exports and diversify investment, leading to expanded sources of foreign exchange, diversification of ownership and products, and deeper linkages between exporters and local producers. The constraints to be addressed in this project, and elaborately described in the Project Paper, were low productivity, financial market deficiencies and lack of business infrastructure that hamper Jamaica's prospects for growth. The originally conceived activities included in the Project Paper were carefully designed to address these constraints. These objectives permeate how AID views this project, thus, comments on the performance impact of the project are presented in these terms.

The project was designed to address an identified set of independent constraints upon exports and investment using cost sharing and flexible mechanisms. The original focus of the project activities to address these constraints was broad. JAMPRO was to be the primary counterpart organization, but assistance to many other groups was envisioned, including NDF/J, PIOJ and IESC.

Key management issues addressed are the methods of ascertaining the impact of the project's various components such as trade, investment and export promotion, privatization, policy dialogue and reform, tourism development, small business promotion and financial sector development on the mission's overall objectives of increased foreign exchange earnings and employment as well as the appropriateness of JAMPRO as the project's implementing agency. This project has become so broad that the evaluators reviewed 22 discrete project activities.

In addition to determining whether specific activities had a positive impact, the evaluation team was also asked to identify those activities that might fit within an amended EDIP project. The final year of activities under the present project and those activities that should be included in a reconfigured EDIP are discussed in Section V of this report.

The \$7 million in financing for the project was to be expended in the following activities:

Technical Assistance  
Training  
Credit  
Other Grants  
Program Audits  
Evaluation & Audit  
Project Implementation  
Contingency/Inflation

Exhibit I-1, on the following page, demonstrates the current status of obligations and expenditures under this project. It can easily be seen that this project has a draw-down problem: after completing 75 percent of the project period, only 35 percent of the funds have been disbursed. Shifts in obligations have been recommended in Section V, but even these activities do not entirely resolve the problem.

#### **B. Composition of the Evaluation Team and Methodology**

Because of the broad range of activities undertaken in the EDIP, the team was composed of the following specialties:

- Ronald J. Ivey, Team Leader and Privatization Specialist, Deloitte & Touche.
- William A. Kedrock, Business Development Specialist, Chemonics International.
- Michael Julien, Production/Marketing/Trade Specialist, Carana.
- Roberto Toso, Legal/Financial Specialist, Socimer.

The team arrived in Kingston on February 28, 1993, and departed on April 2, 1993.

The methodology for the evaluation consisted of a series of interviews carried out with key persons (See Appendix A, Persons Interviewed) involved with the EDIP and a document review (See Appendix B, Bibliography). USAID was briefed several times on the progress and findings of the evaluation, which resulted in a constructive dialogue regarding recommendations.

#### **C. Economic, Social and Political Context**

Michael Manley became Prime Minister in 1989 with a mandate to implement a far-reaching economic liberalization process without significant opposition. This process included the elimination of most foreign exchange controls, a massive devaluation of the Jamaican dollar, the continuation of privatization and the opening of the economy with the objective of allowing the private sector to flourish, foreign trade expansion, and reforms in

EXHIBIT I-1  
EDIP PROJECT FINANCIAL STATUS  
Through 2/28/93

Project Component	LOP	PROAG Agmt Obligations	MACS Report Obligations	Earmarks	Commitments	Disbursements	Pipeline Oblig-E'mark	Pipeline Oblig-Dis
JAMPRO	1930500	1930500	1830500	1830350	1059698	887824	100000	942676
NIBJ	1269057	1248700	1248700	1022700	911998	621587	20357	627113
IESC	500000	385448	385448	250000	250000	250000	114552	135448
TAP	650000	401000	401000	401000	250000	110790	249000	290210
MISSION MGD	1023443	1023443	1223443	949056	647077	559380	-200000	664063
NDF	181000	181000	131000	130625	3925	3564	50000	127436
CONTINGENCY	106000	106000	56000	0	0	0	50000	56000
PSOJ	340000	240000	240000	240000	240000	0	100000	240000
FPMU	1000000	400000	400000	400000	0	0	600000	400000
TOTALS	7000000	5916091	5916091	5223731	3362698	2433145	1083909	3482946

Source: USAID/Kingston

both the government and financial sectors. His government also reduced the current account deficit through a successful process of foreign debt renegotiation. Nevertheless, the government experienced difficulty in controlling liquidity, which led to an unprecedented level of inflation (80 percent) in 1991.

As in many countries, the severe structural reforms and stabilization policies led to deteriorating living standards. Mr. Manley resigned in March, 1992. He was succeeded by P.J. Patterson. By this time, the country had already undergone much of the liberalization process and was starting to implement and manage the modernization of the Jamaican economy. Mr. Patterson has been relatively successful in stabilizing the currency through tight monetary policy, continuing the economic modernization process, and in generally maintaining the continuity of his predecessor's policies. Government deficits continue, financed by certificates of deposit. Privatization continues, but at a slower pace. Parliamentary elections were held during the evaluation of the EDIP project and the incumbent government was re-elected.

While the Jamaican economy has grown in real terms every year since 1986, recently it has slowed to almost zero growth, with little new foreign investment and lackluster exports. Traditional crops such as bananas are increasing, but cannot fulfil European quotas. Bauxite production is up, but prices are down, with a more or less neutral effect upon the economy. Tourism is performing relatively well; nevertheless, heavy discounting is evident. Three principal areas of concern remain at this juncture:

- A deterioration of the real exchange rate that is fueling an increased consumption of imported goods as well as a loss in competitiveness of the export and import-substitution sectors. This has been the result of a managed "float" of the exchange rate on the part of the BOJ, with the purpose of maintaining low inflationary pressures on the economy.
- High short-term interest rates which probably reflect exchange rate distortion, and tight anti-inflationary monetary policy coupled with still prevailing high inflationary expectations.
- The country's large foreign debt burden and associated debt service level that condition the government's efforts at stabilization and structural reform.

As most of the major laws and economic measures have been adopted, the implementation phase of economic policy reform is now crucial. Proper, strong institutions and effective management are needed, areas for which appropriate technical assistance will be required to ensure the full implementation of the economic reforms and to regain momentum in the growth of the economy.

**D. The Foreign Operations, Export Financing, and Related Program Appropriations Act: Section 599**

**D1. Overview**

In 1992, legislation, incorporated as Section 599 of the 1993 Foreign Operations, Export Financing and Related Program Appropriations Act, prohibited use of U.S. foreign economic assistance for financial incentives to U.S. enterprises to relocate abroad or for establishing or developing export processing zones. The new law, effective October 1, 1992, also prohibits use of appropriated funds for assistance that could contribute to violations of internationally recognized workers' rights. The intent of Section 599 is to curtail the use of appropriated U.S. Government resources for funding investment promotion and investor support activities to attract U.S. companies to off-shore locations that result in a loss of jobs in the United States.

**D2. Implications and Compliance Actions**

Section 599 has widespread implications for programs that support privatization, financial sector development, export development, foreign direct investment, and micro-enterprise growth in Jamaica. The USAID projects that may be affected are EDIP, the Microenterprise Development Project (MED), the Agricultural Export Services Project (AESP), the Inner Kingston Project and PRE Activities.

To assure compliance with the new legislation the mission decided to phase out technical assistance, training, commodities or financing for activities that support 1) free zones; 2) firms operating in free zones; 3) certain types of investment promotion activities in the U.S. that may attract U.S. firms to Jamaica; and 4) general budgetary support for investment promotion organizations.

Various actions were in-progress at the time of this evaluation in March 1993. OPE has reviewed other missions' approaches and queries about eligibility and has submitted its own comments to AID/W<sup>1</sup>. All affected organizations had been advised of the legislation, a portfolio review was underway within the mission, and discussions started on an orderly termination of activities deemed ineligible for further support. USAID plans to follow-up these actions with project amendments or PILS and, in conjunction with AID/Washington, will develop a project checklist to be applied to amendments and proposed projects.

**E. Management Information System**

Prior to this evaluation, USAID had made several attempts to develop a management information system that would track the various project components and impacts. One attempt involved bringing in a consultant team that formulated an elaborately structured system. Subsequently, the system could not be implemented because of the vast array of

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<sup>1</sup> The evaluation team reviewed comments and queries on Section 599 legislation from USAID Missions in Guatemala, Bolivia, Dominican Republic, Nicaragua and Costa Rica.

data to be collected by cooperating grantees and their lack of personnel resources with adequate training to collect such data. This proposed system was a failure.

Afterwards an AID/Washington and USAID team worked to develop a simpler scheme with simpler variables. The evaluation team familiarized itself with these efforts and, while not required to contribute to the MIS design, did commit itself to setting forth appropriate, simple measures of impact for each present project activity, particularly for those the team is recommending for continuation. Further, the team stressed the need to set up a simple, nearly manual system that could easily satisfy AID/Washington requirements. Such a system could be set up and operated by the OPE in conjunction with their various grantees. These measures are included, as appropriate, in the sections below.

#### **F. Organization of the Report**

Section II of this report discusses the activities that we have characterized as Trade and Investment. Section III discusses economic policy reform initiatives undertaken by USAID and other donors. Section IV discusses the privatization program and employee ownership initiatives. Section V recommends the continuation or termination of discrete project elements. Appendix A lists the persons interviewed during the evaluation. Appendix B lists the documents and publications reviewed. Appendix C provides a list of acronyms employed in the report. Appendix D provides a status report of all the privatizations completed or in-process through the NIBJ. Appendix E provides recommended strategy for supporting the modernization and regulation of the Stock Exchange.



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## SECTION II TRADE AND INVESTMENT

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### A. Jamaica Promotions Ltd.

#### A1. Organizational Description

##### A1a. Overview

Jamaica Promotions Ltd. (JAMPRO) was established in April 1988 by a merger of three economic development organizations<sup>1</sup>. JAMPRO helps the private sector create jobs, increase productivity, expand investment and generate foreign exchange in targeted industries by providing technical, promotional and investment support. JAMPRO's strategy is to promote and facilitate investment and export growth in three priority sectors: agribusiness, services, and manufacturing. Services provided to the private sector include export certification and registration, market promotion, expediting the investment process, project appraisals, industrial training, and identification of joint venture partners for both local and foreign investors. JAMPRO's annual operating costs are funded by a combination of GOJ budgetary support and fee-based income. In 1992 the GOJ committed J\$135 million to finance JAMPRO activities for fiscal year 1992/93.

##### A1b. JAMPRO's EDIP Activities

JAMPRO plays two EDIP roles: 1) it serves as the principal counterpart; and 2) it implements Technical Assistance, Training and Trade Promotion programs under the grant. Although not explicitly stated, JAMPRO was probably chosen as the host country counterpart organization because its goals and mission were similar to the mission's strategic objectives of increasing foreign exchange and employment; because of the need to facilitate a nine-month overlap of the TC and TG and EDIP projects; and because of its familiarity with USAID project management requirements.

USAID has obligated \$1,830,000 for the Technical Assistance and Training and Trade Promotion elements to be implemented by JAMPRO. By March 1993, USAID had approved and financed the following sub-elements of the EDIP grant: 1) Garment Sector; 2) Furniture Sector; 3) Data Processing; 4) Film Industry; 5) Trade Promotion; and 6) Small Business. With the exception of data processing and small business, support to the garment, furniture, film industries and trade promotion funding were modified extensions of similar assistance provided under the TC & TG project.

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<sup>1</sup> The three organizations were the Jamaica Industrial Development Corporation (JIDC), the Jamaica National Export Corporation (JNEC) and the Jamaica National Investment Promotion (JNIP).

### **A1c. The Role of Other Donor Programs**

JAMPRO has been the primary implementing agency for most of the larger firm-level assistance programs. In addition to EDIP, JAMPRO has utilized grants from UNDP for institutional strengthening and for assistance to the furniture sub-sector. Other JAMPRO-coordinated programs include CANEXPORT, CIDA's \$2.4 million three-year project to increase non-traditional horticultural exports to Canada and TARGET EUROPE, a European Community \$3.5 million two-year program to help 60 exporters penetrate European markets. TARGET JAPAN, a smaller, similar program developed by the Commonwealth Fund for Technical Cooperation is scheduled for implementation in 1993. Export development assistance is also provided by ITC, GTZ, CDI, CARICOM's Export Development Project and from the Caribbean Association of Industry and Commerce.

Although USAID funding levels have been surpassed by other donors, it has been and still is one of the front runners of firm-level assistance in Jamaica. For instance between 1988 and 1990, USAID funded \$2.5 million of technical assistance interventions through JAMPRO and its predecessor organizations for industrial training, investment promotion, 936 twin plant development, sector studies and export promotion under the TC & TG project.

### **A2. Approach to Evaluating JAMPRO's EDIP-Funded Activities**

Three key issues were evaluated in accordance with the scope of work: 1) the impact of EDIP-funded assistance; 2) JAMPRO's adoption of PRAGMA recommendations and compliance with an IDB-funded institutional strengthening plan and 3) the suitability of JAMPRO as the EDIP counterpart organization. To assess impact at the enterprise level, we reviewed JAMPRO progress reports and interviewed seven JAMPRO clients who had received EDIP-funded TA. To assess the adoption of PRAGMA's recommendations we reviewed progress reports and interviewed key JAMPRO personnel. This approach allowed us to develop recommendations to improve implementation and to draw conclusions about the organization's future project administration role under the project.

### **A3. Overall JAMPRO Accomplishments**

Despite its downsizing, JAMPRO has assisted a considerable number of projects and has helped to generate sustained levels of investment and employment over the three-year LOP. In fiscal year 1990/91, JAMPRO facilitated J\$734 million of new investment in 79 projects that created 2,800 new jobs. In 1991/92, its efforts led to J\$724 million of new investment in 87 projects and 2,575 jobs. For the first nine months of 1992/93 JAMPRO helped to facilitate J\$156 million of investment in 116 projects that generated 2,005 jobs<sup>2</sup>.

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<sup>2</sup> JAMPRO performance data. We noted that about a third of the projects generated in 1990/91 and 1991/92 were small enterprise (SME) projects. SME projects accounted for approx 70% of the investments recorded for the first 9 months of fiscal year 1992/93. This is the primary reason why 1992/93 investment levels are so much lower than 1991/92.

#### **A4. Progress and Accomplishments Under EDIP**

Between April 1990 and March 1993 JAMPRO provided firm-level assistance to the garment and furniture sectors, carried out a feasibility study of the data processing sector, undertook investment promotion work in the U.S. and initiated small business support through its Enterprise Center.

Of the \$7,000,000 in total project funding, \$1,830,000 was earmarked for technical assistance through February 1993 of which \$1,059,698 has been committed, and \$887,824 disbursed, by that date. By March 9, 1993, JAMPRO had utilized 48 percent of its committed EDIP funds. Since the project has completed three of its four year LOP, it should have used about 75 percent of the obligated funding. Descriptions of EDIP firm level assistance and accomplishments under each sub-element are provided in the sections below.

##### **A4a. Garment Sector**

Almost half of the \$887,824 spent on firm-level activities was used to provide technical assistance to the garment sector. To date, EDIP has financed three long-term engineering consultants, contributed to costs of sending Jamaican delegations to the Bobbin Trade Shows in Atlanta and Florida and purchased \$30,000 of equipment for a Bureau of Standards laboratory to detect textile fraud.

The long-term consultants provided engineering assistance, management advice and quality control to the private sector and apparel engineer training, course curricula design and industry advice to JAMPRO. Initially, the objective was to deliver basic technical assistance to streamline production, improve productivity and introduce statistical quality control and cost accounting systems to local firms. By 1992, and as a result of EDIP assistance, an increasing number of firms had mastered those basic techniques. Thereafter, EDIP assistance was directed at transferring advanced techniques to exporters who had graduated from basic Section 807 (sew only) production contracts to Cut, Make and Trim (CMT) operations, although the program continued to provide basic support to entry-level firms.

At first, EDIP technical support was fully subsidized under the grant. A cost-sharing strategy was introduced in 1991. Each client pays a one-time J\$3,000 retainer fee for a minimum of 4 hours of per week of in-plant time and guidance over a six-month period. However, although the fee is fixed, the consultants' overall LOE varies from firm to firm since some companies require minimum assistance, while others need more frequent hand-holding and training.

Two hundred twenty-two clients were assisted over the three-year grant period, of which 209 (94 percent) were custom territory firms while only 13 (6 percent) were situated in free zones. Of the 222 plants, 58 were assisted directly by the consultants while 164 firms were assisted by JAMPRO's engineers under the consultants' guidance. JAMPRO estimates that, as a result of EDIP-funded assistance, investment in the garment sector increased by J\$58 million between April 1990 and March 1993. About 55 percent of the

companies were small or medium-sized firms with less than 30 sewing machines; the rest were larger operations, most of whom had 30-100 machines.

Notwithstanding these accomplishments, USAID scaled down its assistance to the garment sector because of concerns about the sector's capacity to absorb technical assistance because of Section 599 legislation prohibitions on assistance to free zone firms. By December 1992, one of the three consultants had been withdrawn. A second consultant's contract will be completed in June 1993. Consequently, only one long-term consultant is being funded for calendar year 1993.

#### **A4b. Furniture Sector**

Technical assistance to the furniture sector, initiated under the TC and TG project, was continued as an essential EDIP sub-element. In March 1991, two TC and TG-funded consultants were each awarded three-month contracts as an interim measure to assure continuity in the delivery of technical assistance while EDIP project management arrangements were being finalized.

One of the two consultants was subsequently contracted for a long-term engagement with JAMPRO from November 1991 to December 1992. The new contract laid out targets for implementation including the requirement that assistance be provided to 11 companies. Flexible production systems also were to be introduced to selected companies and technical services offered to companies on a retainer basis. However, in December 1992, USAID discontinued its funding support to the furniture sector citing budgetary constraints and the need to focus EDIP assistance on high impact activities.

Accomplishments in the furniture sector were difficult to identify for three reasons. First, the initial three-month contracts were transitional and did not include implementation targets against which project achievements could be assessed. Second, the consultant's accomplishments could not be determined because his close-out report had not been completed at the time of this evaluation<sup>3</sup>. Finally, other reports reviewed by our team contained limited quantitative information on exports, employment, productivity and product diversification. Nevertheless, on the basis of a review of a cost-benefit analysis of USAID's assistance to Jamaica's furniture industry, we concluded that the mission's decision to terminate technical assistance was appropriate because of the limited impact of USAID's technical assistance on that sector under the TC and TG grant<sup>4</sup>.

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<sup>3</sup> The consultant's contract was to be terminated on December 2, 1992 but was extended to December 31 at JAMPRO's request to allow the consultant to prepare his close-out report. The report had not been completed at the time of this evaluation in March 1993.

<sup>4</sup> Black, Dorothy. Cost Benefit Analysis of USAID's Assistance to Jamaica's Furniture Industry 1983 - 1990. July 16, 1991.

#### **A4c. Data Processing**

EDIP technical assistance consisted of an INTEX market assessment and strategic study on Jamaica's information services sector (\$71,517), a seminar to present the findings of the study (\$7,280) and funding for instructional materials to strengthen a medical transcription training program at a community college. The purpose of the INTEX study was to identify major sectors of the information processing market in the U.S.; to specify opportunities for Jamaica; to evaluate Jamaica's capabilities; and to develop strategies and recommend policies to expand its information processing industry.

INTEX recommended that Jamaica diversify its services from the low-end key entry operations to high-end value added services such as CAD/CAM, Telemarketing and Imaging. The INTEX team suggested that Jamaica "place a major effort on training programs and that firms establish a marketing and production cooperative to coordinate investment promotion in the U.S. "

The study was well received by JAMPRO and the information processing sector: Within 12 months of completion, a Jamaican marketing and production organization, the Information Processing Group (IPG), was formed by seven local firms. USAID, in collaboration with JAMPRO and the Information Processing Group, also agreed to provide up to \$135,000 of EDIP grant financing for the procurement of computer hardware for a local training institute following the INTEX recommendation to emphasize training programs to facilitate faster growth in the sector. This program was determined to fall within AID/Washington's guidelines regarding Section 599. JAMPRO also used the results of the study to refine its strategic approach and is now placing more emphasis on strengthening Jamaica's human resource development in the information processing sector.

#### **A4d. Film Industry**

To help Jamaica attract U.S. film production work, USAID funded a 12-month \$60,970 JAMPRO retainer contract with a Los Angeles law firm to promote Jamaica to Hollywood studios and independent producers<sup>5</sup>. According to JAMPRO, the strategy helped to generate locally-based work on four new films that led to J\$9.6 million of "on location" expenditures and the generation of 390 temporary jobs over 27 weeks of film-making activity. JAMPRO would like to obtain USAID funding for similar initiatives in the future, but is aware that such activities may no longer qualify because of Section 599 legislation.

#### **A4e. Trade Promotion**

To complement its support to the furniture and information processing sectors, USAID earmarked \$131,000 for trade promotion at the Bobbin and Data Entry Management Show (DEMA) shows. Of the \$131,000 earmarked, \$33,303 was used to finance attendance

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<sup>5</sup> Mitchell, Silberberg and Knupp, the law firm selected for the EDIP-funded retainer contract, has a long-standing relationship with JAMPRO and was selected because of its prior success in getting film makers to use Jamaica for offshore portions of their scripts.

at the 1992 DEMA show and participation of 10 garment operators at the Bobbin Shows in Atlanta and Miami in 1991 and 1992<sup>6</sup>. According to JAMPRO's president, the outcome of this support, in terms of promotional impact, technology transfer, new investment and offshore contracts, has been difficult to quantify because of the indirect correlation between attendance and other decision-making considerations, such as marketing strategy, production costs, proximity to markets and political stability, which influence foreign investors to establish off-shore operations.

#### **A4f. Factors Affecting Implementation**

Why was EDIP's implementation rate slower than anticipated over the three-year Life of Project? According to JAMPRO, five factors affected implementation efficiency: 1) the overlap of TC and TG funding for the first six months of EDIP; 2) the time taken by JAMPRO to develop implementation plans and submit progress reports for USAID approval; 3) a temporary slow-down due to the turnover of the OPE team; 4) the approval process used by OPE; and 5) the recent imposition of Section 599 restrictions on the eligibility of previously approved project activities.

In our assessment, just three factors—the TC and TG overlap with EDIP, the time taken by JAMPRO to develop implementation plans, and more recently, the effects of Section 599—are the primary reasons why implementation of EDIP grant activities was slower than expected. For example, the TC and TG garment consultants' contracts were extended to December 1990—six months into the EDIP grant—leaving EDIP funds unutilized for that time.

In the case of JAMPRO's turnaround efficiency, there were instances of three to twelve month gaps between USAID PILS earmarking funds and JAMPRO implementation plans and actual expenditures. One example: funds earmarked for JAMPRO trade promotion in September 1991 were not utilized until September 1992. In the case of the data processing study, funding was earmarked in August 1990 but the consultancy was completed in March 1992.

#### **A5. Assessment of the Institutional Strengthening Plan for JAMPRO**

##### **A5a. Organizational Changes**

Over the LOP, JAMPRO has initiated various organizational reforms as part of the conditionality associated with the IDB \$75 million Trade, Finance and Investment Sector Adjustment Program. These changes resulted in the downsizing of operations and a commitment to transfer some revenue generating services to the private sector. Did these reforms adversely affect JAMPRO's ability to channel firm-level assistance to the private sector?

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<sup>6</sup> USAID has discontinued its assistance for trade and investment promotion activities in accordance with Section 599 regulations.

In 1990 and 1991, two institutional strengthening studies were carried out for JAMPRO<sup>7</sup>. Pragma consultants developed 85 recommendations for restructuring and improving operations. JAMPRO agreed to adopt 75 percent of Pragma's suggestions, including organizational restructuring, adoption of strategic planning functions, introduction of a cost recovery program and initiation of the transfer of some of its activities to private sector agencies such as the JEA and the JMA.

#### **A5b. Progress in Institutional Strengthening**

JAMPRO has made notable progress in adopting Pragma and TDI recommendations. It has consolidated its functions under two divisions (Corporate Services and Production and Promotion) and now employs 244 employees, down from 390 in 1988. In addition, revenues generated from its cost-recovery program have improved from 7 percent in 1991/92 to 11 percent of its annual budget in 1992/93. In January 1993, JAMPRO hired a local accounting firm to develop a cost recovery maximization program and expects to generate 20 percent of its 1993/94 budget from fee based services.

#### **A5c. Transfer of Functions to the Private Sector**

JAMPRO has had limited success in transferring investment and private sector support services to the private sector. To its credit, the corporation has shut down its Feasibility Studies Unit, closed its New York trade commission office and has placed JETCO, one of its two subsidiaries, on the NIBJ's divestment list. According to JAMPRO's president, however, the private sector would prefer that JAMPRO continue to provide essential support services for export development. The reason: market prices for technical services are strongly influenced by the plethora of subsidized services in Jamaica. The private sector believes that end-users have grown accustomed to heavily subsidized technical support and are therefore not yet prepared to take on a lead role in the provision of fee-based services undertaken by JAMPRO.

In summary, JAMPRO's reorganization and institutional strengthening have had no noticeable negative effects on its implementation of EDIP activities. Moreover, although the organization's firm-level activities are still heavily subsidized by USAID and other donor agencies, its cost recovery program is a positive step towards partial sustainability and eventual commercialization of its client-specific services. It would appear, however, that private service providers are reluctant to assume some of JAMPRO's functions because the commercial market for TA services in Jamaica is limited to a small group of large firms that can afford to pay market rates for such expertise.

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<sup>7</sup> 1. Magma Consultants Ltd. Review of Organizational Structure, Internal Controls and Reporting System. March 12, 1990 commissioned by GOJ and 2. Trade Development Institute of Ireland. Technical Assistance for Strengthening JAMPRO's Operating Effectiveness, June 1991, commissioned by IDB.

## **A6. Progress Toward EOP Status**

The implementation rate and the downsizing of JAMPRO operations over the LOP, produced mixed results in terms of the contribution of the JAMPRO towards EDIP's EOP status. By March 1993, as a result of the overlap of the TC and TG project and the withdrawal of long-term consultants from the garment and furniture sectors, only 217 (27 percent) of the expected 800 person-months of in-plant assistance had been provided to the private sector. On the other hand, the project has been very efficient in the delivery of its in-plant training activities: about 881 persons had been trained by March 1993. This represents 88 percent of the projected 1000 EOP output for in-plant training, despite the more than 50 percent cutback in the consultants' expected 800 person-month level of effort. Similar success was achieved in trade show participation and private sector attendance.

## **A7. Assessment of Impact**

To assess impact, we selected a sample of five clients in the garment sector for field interviews. The clients selected were 1) a free zone firm; 2) a Cut, Make and Trim (CMT) manufacturer; 3) a Section 807 company; 4) a small local manufacturer; and 5) GARMEX, the free zone apparel training school<sup>8</sup>. We also interviewed one of the four major furniture manufacturers and the manager of an information processing firm.

### **A7a. Impact by Project Objective and Purpose**

**Impact on the Garment Sector.** EDIP-funded assistance to apparel firms had produced both broad-based growth and above average gains in investment, employment and productivity over the LOP. Each of the four firms interviewed had increased employment exponentially. In total, the number of workers quadrupled from 123 to 570. Investment in sewing machines increased from 142 to 454 machines and factory space was expanded from 28,000 sq. ft. to 73,600 sq. ft. One firm, Negrin Jamaica Ltd, intends to lease an additional 20,000 sq. ft later this year to expand its Section 807 operations in Kingston. In terms of worker productivity, three of the four firms claimed that the level of operator efficiency had increased by 30 to 100 percent as a result of EDIP-funded assistance. GARMEX, the fifth beneficiary interviewed, also reported that EDIP-funded consultants provided valuable advice on course curricula and methods to make the institute's program more relevant to manufacturers' needs.

We could not obtain accurate information on foreign exchange generation from the firms visited since that type of information is not always revealed by some companies. However, since three of the four clients were exclusively exporters it was obvious that they were now generating much higher levels of foreign exchange earnings because of their extraordinary expansion of plant, employment, and facilities.

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<sup>8</sup> The four firms interviewed were Negrin Jamaica Ltd, Casual Design Ltd, Global Sourcing Ltd and Quality Manufacturing Ltd. None of these firms were part of the Dorothy Black study and were selected at random by the evaluation team.



**Impact on the Furniture Sector.** In contrast to our findings in the garment sector, we were unable to draw substantive conclusions about the impact of EDIP-funded assistance on furniture firms. Kingston Heirlooms, a leading manufacturer and exporter, claimed that EDIP assistance had led to improved quality control but that longstanding problems of capacity utilization, skill deficiency, and supervisory management were still major constraints to export development. For these reasons we concluded that EDIP assistance probably had a marginal impact on employment, investment, exports and foreign exchange generation in that sector.

**Impact on Service Sector Industries.** EDIP-financed investment promotion for the film industry helped to generate temporary jobs and foreign exchange earnings in Jamaica. However, because of the transitory nature of film production, the impact on the industry, in terms of permanent employment or expansion of the domestic film industry was not sustained.

With regard to the data processing sector, we think that implementation of INTEX's recommendations will have a sustained positive effect on the industry's future. An assessment of the degree of impact of the INTEX study will be more meaningful after local companies have started to procure off-shore contracts through their U.S. based marketing subsidiary and are expanding investment and employment in that sector.

#### **A7b. Impact on Women**

The evaluation team tried to determine the impact of EDIP-funded assistance by gender. However, such data had not been maintained by JAMPRO and could not be collected by the team during our five week assignment. This limitation is symptomatic of MIS deficiencies for the project. JAMPRO had not maintained gender data because it had not been asked to do so and because an appropriate baseline and monitoring system to measure impact had not been designed or installed when project implementation began.

#### **A8. JAMPRO's Counterpart Role**

At the project design stage, it was envisioned that JAMPRO would be the main counterpart organization for project implementation. A project coordinating committee (PCC) was to facilitate coordination of the various project elements and provide overall project oversight. The PCC was activated at the start of the project but became dormant because of a change in JAMPRO executive management and the evolution of various project activities. JAMPRO's role in the overall project implementation is limited to receiving information about the use of project funds for planned activities for other EDIP elements.

#### **A8a. Advantages and Limitations**

JAMPRO's strengths as the principal counterpart agency are its experience base, its ability to facilitate implementation of firm level assistance programs, its strategic role in microeconomic development and its policy linkages with other GOJ agencies and organizations. However, notwithstanding recognition of its own accomplishments with the

firm level element of the project, JAMPRO's role as the EDIP counterpart agency has been limited by the inactivity of the PCC and the separate implementation of other EDIP components.

Should JAMPRO continue to be the lead GOJ counterpart for future project implementation? A comprehensive discussion of this issue is presented in Section V of this report.

#### **A8b. Potential Counterparts for Firm-Level Assistance**

As part of our scope of work we were asked to assess the potential of two alternative counterparts, the Jamaica Exporters Association (JEA) and the Jamaica Manufacturers Association (JMA) as implementing agencies for the firm-level element. We interviewed the JEA and the JMA to assess their institutional capacity and the benefits to be gained by establishing implementation and project administration relationships with those organizations.

We found, however, that neither JEA nor JMA were as well-positioned as JAMPRO to provide firm-level assistance to the private sector. JAMPRO also offers a full range of investment, training and advisory services, which allows the organization to provide a broader range of technical assistance services to the private sector than JEA or JMA.

#### **A9. Conclusions**

- EDIP technical assistance to the garment, film and information processing sectors has had a significant impact on the alleviation of constraints and, in the case of the garment sector, has contributed to the growth in investment and exports in Jamaica.
- The JAMPRO element has made a significant contribution to the mission's strategic objectives of increased foreign exchange and employment through the delivery of firm-level assistance, training and institutional strengthening support over the LOP.
- The JAMPRO's element strength is its cost-effective use of long-term consultants to deliver "hands on" technical assistance to the private sector and its flexibility to fund related activities to help identify the key factors for success in future growth industries like information processing. JAMPRO's primary weakness is its slow rate of implementation and utilization of project funds for planned activities and inability to develop activities that conform to Section 599 guidelines.
- JAMPRO is still the most suitable agency for channeling firm-level assistance to companies on a sector by sector basis because of its pivotal role in microeconomic development, experience base and knowledge of USAID project management and administration systems.

- **EDIP's firm level assistance strategy of using long-term consultants with extensive experience and technical skills through host country contracts to provide technical training and "hands on" assistance to private firms has produced commendable and cost-effective results. Thus, although USAID's current funding levels are not as large as other donors, its approach has had a major impact on economic growth at the microeconomic level.**

#### **A10. Recommendations**

- **USAID should continue to work with JAMPRO as the implementing agency for sector-specific, firm-level assistance to Jamaican firms. Assistance to the garment (through March 1994) and information processing sectors should be maintained because of the current and potential prospects for further growth and high impact in exports, investment, foreign exchange generation and employment.**
- **USAID should develop Section 599 compliance guidelines as one of its prerequisites for project amendments, project design and for future funding approval of technical assistance support for private sector activities. The project team has developed some criteria to assist in the selection of project activities for support. This criteria are found in Section V of this report. These guidelines should distinguish export development from investment promotion assistance; general institutional strengthening from trade and export-related support; institutional support and human resource development infrastructure from targeted or subsidized training for foreign investors.**
- **A basic baseline and impact monitoring system should be developed to assess the contribution of EDIP technical assistance to the mission's strategic objectives and to assess the impact on the private sector. Only the most essential information—changes in employment, investment, floor space, export earnings and worker productivity, and gender breakdowns of ownership, management and employment—should be monitored. The mission has recently streamlined and improved its Program Performance and Assessment System (PPAS) to address this issue.**
- **USAID should continue to fund technical assistance to the garment and information processing sectors. This should include the continuation of the garment consultants' contracts; data processing training and a possible assessment of the implications and alternatives to a monopolistic telecommunications services on the growth prospects of the information processing industry in Jamaica.**
- **USAID and JAMPRO should explore opportunities to refine and strengthen existing EDIP technical assistance to the private sector. They should also explore opportunities to provide further grant support to upgrade the private sector's export capabilities through JAMPRO's industry modernization program. These activities would involve more advanced training, trade information systems, technology transfer, local design and engineering capabilities, and improving output quality.**

This would ensure that firms in "footloose" enterprises that tend to move from country to country easily and entry-level industries graduate to more advanced added-value operations in Jamaica.

## **B. International Executive Service Corps**

### **B1. Description and Context**

#### **B1a. Operations and Services**

Since 1964 the International Executive Service Corps (IESC) has offered short-term, "hands-on" technical assistance to majority-owned domestic firms in developing countries. Within the last 10 years IESC has added market research, trade and investment, and privatization services to enhance its primary Volunteer Executive (VE) program. Worldwide operations are funded through an AID/Washington core grant, in-country client fees and project grants, and from U.S. corporate contributions.

IESC has been offering its VE service in Jamaica through a resident office since 1983. VE services are marketed at full-cost to large firms and on a cost-sharing basis to small enterprises. Between March 31, 1988, and May 1, 1991, its cost-sharing activities were funded under a \$215,000 grant through EDIP's predecessor, the TC and TG Project.

#### **B1b. Eligible Activities Under EDIP**

EDIP activities were initiated as Amendment No. 3 of IESC's TC and TG grant in April 1990. In that Amendment the purpose of the grant was modified to allow IESC to assist government-owned companies or service organizations wishing to divest a portion or all of their operations as well as privately-owned small businesses and companies exporting or initiating plans to export. The grant was also modified to clarify IESC's reporting requirements to USAID.

The EDIP program consists of five components: regular VE projects; American Business Linkage (ABLE) pre-planning studies; privatization services; investment promotion; and a plan to upgrade IESC's management information system (MIS). The program is part of the EDIP project because of its compatibility with its strategic objectives of 1) increased productivity, 2) greater investments, 3) improved financial markets, 4) divestment of government services/firms and 5) more efficient services.

#### **B1c. Funding Status**

Over the four-year Life of Project (LOP), \$500,000 of the \$7 million EDIP grant was earmarked for obligation to IESC. By February 28, 1993, \$385,448 had been obligated, of which \$200,000 has been disbursed. However, when outstanding expenditures are taken into account, it is estimated that no more than \$100,000 of the remaining \$250,000 will be available for cost-sharing activities over the last 12-month LOP. In addition, since December 31, 1992, AID/Washington has limited mission commitments to six-month

extensions of in-country grants pending completion of an Inspector General (IG) audit of the IESC core grant.

## **B2. Approach to Evaluating IESC Activities**

The IESC program was assessed from operational and strategic perspectives. At the operational level, we evaluated progress and accomplishments, quantitative impact, and sustainability of its USAID-funded cost sharing services. At the strategic level we examined IESC's contribution to project objectives, purpose and expected outcome. We looked at linkages with other elements of the project and identified strengths and limitations of the program. This approach allowed us to draw conclusions about efficiency and effectiveness and to develop recommendations to strengthen IESC's role in the context of the strategic framework of the project.

## **B3. Progress and Accomplishments**

We decided to evaluate IESC's EDIP-financed activities in the context of its total country program because its services are marketed as both non-AID (full cost recovery) and AID-funded (cost-sharing) technical assistance. Progress and accomplishments of EDIP activities are dependent on such factors as time dedicated to the two client groups and on the reputation of the program, part of which is based on client perceptions about the quality of non-AID funded activities. Efficiency, cost effectiveness and delivery capacity were also evaluated for the overall Jamaica program since those indicators are interdependent and could not be ranked in isolation of non-AID funded activities.

### **B3a. Overall Progress and Accomplishments**

Between April 1990 and March 1993, IESC's Jamaica office completed 114 projects: 43 in 1990/91; 35 in 1991/92; and 36 in 1992/93. Seventy-three (64 percent) were full cost recovery projects, while 41 (36 percent) were cost-sharing projects funded under EDIP. VE work consisted of 1-2 week diagnostic assignments and 1 - 3 month engagements with client firms. Assignments covered a broad spectrum of sectors, client size and technical assistance interventions. Full cost recovery services were provided to large trading and import substitution companies such as Grace Kennedy, Seprod and Jamaica Flour Mills Ltd. Cost-sharing interventions included assistance to furniture manufacturers, small exporters, agribusinesses, women-owned handicraft cooperatives, educational institutes, venture capital and consulting companies, and local food-processing businesses.

About two-thirds of the assistance was focused on resolving technical deficiencies for which expertise was unavailable locally. The rest covered issues such as business planning and management related functions and were accessed by larger firms on a full cost recovery basis.

When compared with other field office operations, Jamaica's annual project completions (38), exceeded Kenya's (24), Morocco's (30), and the Eastern Caribbean's (28). The Jamaica office also generated more client fees as a percentage of its annual operating

and technical assistance costs. On an annual average, Jamaica recovered all direct costs for (24) interventions in contrast to Kenya (3), Morocco (0) and the Eastern Caribbean (4) between 1990 and 1993. This achievement could be attributed, in part, to the emerging liberalized environment that has increased the utilization by big businesses of quality services to strengthen their domestic and export market capabilities.

### **B3b. Progress and Accomplishments under EDIP**

Although IESC's overall program was well executed, implementation of EDIP-funded activities were less extensive than anticipated. Between April 1990 and March 1993, IESC submitted two funding proposals to USAID outlining its capacity and commitment to carry out VE projects, ABLEs, privatization, social welfare programs, investment promotion, and related logistical support. In practice, the Jamaica office concentrated almost exclusively on marketing and implementing VE projects. The result: IESC successfully completed 35 VE projects but failed to initiate any ABLEs, privatization, or investment promotion projects<sup>9</sup>. Table I below provides a profile of VE assignments between April 1990 and December 31, 1992:

**Table I**

#### **IESC VE Assignments Completed Between April 1990 and December 1992**

<b>Category</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>Total</b>
1. Medium-Sized Firm > 50 emp.	4	-	—	4
2. Small Business < 50 emp.	5	7	8	20
3. Small Women-Owned Firms.	2	3	5	10
4. Govt. Companies and Inst.	1	-	-	1
<b>Total</b>	<b>12</b>	<b>10</b>	<b>13</b>	<b>35</b>

Source: IESC Database Records on VE Project, April 1990 to December 1992.

Nine (26 percent) of the 35 VE assignments were directed at firms and institutions that generate export sales. Of these nine assignments, five were commissioned by two companies that earn most of their sales from exports, while the other four were commissioned by indirect exporters in the tourism sector.

Attempts to upgrade IESC's MIS systems produced mixed results. In December 1991, IESC purchased computer hardware and, with USAID-contracted assistance under a Management Systems International (MSI) indefinite quantity contract (IQC), installed a

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<sup>9</sup> Two privatization assignments (Tool and Die Institute and Maxwell Park Children's Home) and one ABLE study (Papaya and Mango Production) were carried out prior to the inception of EDIP project activities in April 1990.

performance monitoring system. The system proved to be too complicated for IESC needs. As an alternative, a D-Base tracking system was installed to generate cost and statistical data on VE projects. The D-Base files contain useful baseline data on client contributions, employment, business sectors assisted, duration of each intervention and USAID funding on a project basis. However, IESC lacks a monitoring and evaluation methods for assessing impact. As a result, there was no *post facto* information on employment generation, sales trends, technology transfer or the extent to which clients had adopted VE recommendations.

#### **B4. Assessment of Impact**

To assess impact we selected a random sample of IESC clients for field interviews. Clients chosen were 1) a medium-sized furniture exporter; 2) a small woman-owned and operated business; 3) two import-substitution manufacturers and 3) a womens' cooperative. To develop an appreciation of IESC's full cost recovery program we also interviewed a large client who had contracted IESC to provide assistance for a planned export-oriented agribusiness venture.

##### **B4a. Impact by Project Objective and Purpose**

IESC's assistance to an extensive cross-section of small firms indicates that its EDIP-funded activities contributed to the project goal of stimulating broad-based economic growth. However, there was varied feedback from clients interviewed about increases in employment and higher real incomes.

Only one client, Allsides Work Room, had increased employment, although three firms (Lubricare, Bridgette's Sandals, and Jamaica Dental Products) indicated that they could each expand employment from 10-12 workers to 18-20 employees when their planned export marketing programs are implemented. Allsides, a women-owned cooperative, strengthened its operational and marketing programs, raised its skill levels and increased employment from 400 to 430 workers under its rural outreach piecework program as a result of VE assistance. Kingston Heirlooms, the medium-sized manufacturer/exporter that had used VEs on four occasions in 1990, increased and then cut back its work force after it decided to shut down an upholstery product line in 1991.

The five clients interviewed stated that real incomes had fallen as a result of the dramatic devaluation of the Jamaica dollar since 1990 and the on-going inflationary pressures associated with exchange rate adjustment. In terms of the project purpose, there was diverging testimony of export growth, diversified investment, diversification of ownership and products or deeper linkages between exporters and local producers. Exports rose by 10 percent—25 percent on an annual basis for Allsides, Bridgette's Sandals and Kingston Heirlooms but are yet to be realized by Jamaica Dental or Lubricare. However, given IESC's small business focus and the constraints and limited growth prospects faced by that sector, there has been less diversified investment or diversification of ownership within that EDIP target group. Nonetheless, three of the five firms interviewed had improved quality control and introduced new product lines. For instance, Kingston Heirlooms reduced its

furniture reject rate from 50 percent to less than 7 percent and Allsides added a new line of embroidery products.

There was no indication that IESC had directed AID-funded technical assistance at clients with the potential to facilitate or strengthen linkages between exporters and local producers. As mentioned earlier, assistance was provided to two venture capital firms and a consulting business. It could be argued that VE assistance would eventually facilitate linkages between exporters and producers who use those firms' services. We would agree that such linkages would help to stimulate economic growth. However, we view such benefits as ad hoc and incidental rather than the result of a deliberate IESC initiative to foster linkages by providing assistance to those service sector firms.

In contrast, our review of assistance to Jamaica Flour Mills (JFM), a non-AID funded client, revealed that the EDIP goal, purpose and expected outcome could have been equally realized if larger firms had been made eligible for grant support. As part of a strategic plan to remain competitive in the domestic market and develop self-sustaining sources of foreign exchange in Jamaica's liberalized economy, JFM contracted IESC to provide mango and papaya expertise for a large scale 1,200 acre export project. JFM will invest \$6 million in a phased three-year development plan that is projected to generate \$10 million—\$20 million in annual exports to European and U.S. markets. The project could create 80-100 new jobs over the same period and is 100 percent locally owned.

Scheduled for 1993-95 implementation, the venture clearly illustrates the kinds of private sector initiatives, linkages and benefits that should be the result of the EDIP project: capital has been raised on the Stock Exchange and the country's export base will expand as a result of this investment. Product diversification has occurred and linkages with other producers and exporters will probably be created as opportunities emerge for joint packaging, shipping, and overseas marketing between the JFM venture and smaller producers in Jamaica.

#### **B4b. Impact on Women Enterprises**

About a third of the 35 clients assisted were woman-owned, small businesses. While it was not feasible to interview all clients, we noted a number of positive indicators in the two woman-owned operations visited during this evaluation. This was the first time that these clients had obtained technical assistance. The two firms had implemented almost all of their VE recommendations for their companies and were pursuing export-led strategies.

Allsides Work Room has attributed much of its business improvement to IESC assistance. The owner of Bridgette's Sandals used IESC for factory layout and product scheduling. She claimed that the VE helped to rationalize her operations and improve productivity. Other small woman-owned firms assisted included upper income enterprises such as a venture capital firm, two food processors, an electronic manufacturer, a fiberglass firm and a consulting company.



## **B5. Cost Recovery, Sustainability, and Cost-Effectiveness**

### **B5a. Cost-Recovery and Sustainability**

One reason why AID funds IESC in-country activities is that small and medium-sized clients cannot afford either commercial services when available, or the total direct cost of VE interventions. Based on our assessment of revenues, scale of operations and resource capabilities, we concluded that four of the five clients interviewed could not afford to pay full cost for technical assistance services. Those clients paid \$8,210 (11 percent) while USAID funded \$66,630 (89 percent) of related expenditure. The medium-sized firm, Kingston Heirlooms, contributed \$8,212 (31 percent) of the total direct funding for its four interventions.

In comparison, non-AID funded projects paid more than actual direct cost for technical assistance. For example, IESC's \$8,000 fee for a two-week diagnostic assignment easily exceeded the \$5,800 estimated cost and its \$18,500 charge for a two-month intervention was more than its \$16,300 outlay for the same duration. Sustainability will therefore depend on market focus: If the program continues to assist small enterprises, it will need continued donor support to cover 80-90 percent of technical assistance to that client group. If, however, IESC is allowed to target medium-sized and large enterprises, its sustainability can be improved over time.

### **B5b. Cost-Effectiveness of VE Program**

IESC's services are more cost-effective than commercial alternatives. The direct cost of a 30-day VE assignment under EDIP is approximately \$12,400. This cost estimate consists of \$2,000 in airfare for the VE and spouse; \$4,500 for 30 day's accommodation in Jamaica; \$2,500 for IESC Headquarters' "recruitment costs;" \$400 for incidentals, in-transit costs and allowances; and \$3,000 estimated as IESC/Jamaica in-country and operations costs allocated on a per-project basis for each VE assignment (based on total annual in-country costs of \$120,000 to \$150,000). An international consulting firm would charge in the range of \$7,200 (@ \$300/day) plus an overhead rate of 150 percent in addition to travel and per diem expenses. Total costs for one person-month of a consulting firm's time: \$23,000—\$25,000. USAID is receiving good value for its expenditures.

## **B6. Factors Affecting Program Delivery**

Although IESC's program has produced broad-based benefits, the following factors have compromised project implementation and impeded impact:

- Lack of linkage with other components of the project and limited collaboration with business associations, the financial sector, and JAMPRO.
- Absence of creative marketing strategies for privatization and ABLE services although some linkages appear possible.

- **Perpetual management and financial deficiencies of small and medium-sized enterprises that limit absorptive capacity and impact of firm-level programs on the small business sector.**
- **Fully-utilized field office capacity and lack of resources to introduce new services and broaden IESC's client base.**
- **Elimination of core grant funding for in-country operations and the subsequent field office reduction in its cost-sharing activities for non-AID funded projects.**
- **Limited access to foreign exchange by small enterprises due to the ability of the larger foreign exchange earners to hold balances offshore plus manipulation of the exchange rate by BOJ in favor of urban consumers and high inflation which has pushed new investment requirements beyond the reach of small businesses.**

#### **B7. Conclusions**

- **Overall, IESC has made a moderate but positive contribution to the EDIP goals of broad-based economic growth. The six clients interviewed were notably impressed with the caliber of assistance provided and its impact on productivity and skills levels.**
- **Increased employment, higher real incomes, increased exports and linkages between exporters and producers were less visible because of IESC's exclusive focus on VE projects and because the cost of credit and delays in obtaining foreign exchange limited the rate at which small businesses could expand their operations.**
- **The impact of IESC technical assistance is heavily dependent on the absorptive capacity of each client. Small firms benefitted from skills and technology transfer but could not implement many VE recommendations because of management weaknesses and financial difficulties in an increasingly competitive market for such resources.**
- **IESC claims to have had greater impact with larger non-AID supported clients who possess the capital resources, access to technology and management capacity to maximize technical assistance.**
- **The absence of strategic linkages between IESC and other project components and its failure to implement ABLE, privatization and other planned services occurred because the field office is operating at close to full capacity and is therefore neither motivated nor willing to explore ways to broaden its technical assistance base.**
- **EDIP-funded technical assistance is not self-sustainable because it is targeted at a (small business) sector that is unable to bear the full cost of such interventions. However, the program is cost-effective, both in terms of alternative options and the proportion of costs reimbursed by USAID under the project.**

- Attempts to upgrade IESC's management information system have had limited success. The field office's baseline data system is acceptable but IESC, despite repeated mission requests and suggestions, is yet to establish a relevant impact measurement system for EDIP-assisted projects.

#### **B8. Recommendations**

USAID should continue to support the program and should provide additional resources for in-country assistance after the outstanding \$250,000 obligated balance of EDIP funding has been utilized. The following modifications are recommended for the remainder of the 12-month LOP and for the next amendment to IESC's EDIP grant agreement:

- IESC should focus on medium-sized and larger clients because those clients have the absorptive capacity to make best use of its VE technical assistance program. Only the very large firms can afford the full cost of an IESC intervention. IESC should have the flexibility and discretion to negotiate fee levels within general price ranges or bands based on the client's financial capacity to pay. We expect that larger firms can pay 75-90 percent of the costs, while medium-sized firms may be able to pay 30-60 percent.
- Technical assistance to small enterprises should be transferred to USAID's micro-enterprise project. USAID could consider sourcing such assistance for another U.S. PVO program equipped to deliver such assistance to that sector.
- As part of its VE program, IESC should explore opportunities to provide a series of scheduled post-privatization management, marketing and technical interventions to former government-owned enterprises. This would strengthen linkages within EDIP and broaden the range of clients targeted for project-financed assistance.
- Jamaican ventures can access U.S. market and technology sourcing information through the ABLE program. IESC should market ABLEs to Jamaican commercial, investment, and merchant banks, and exporters looking for new investment opportunities and/or new export markets in the United States.
- IESC should modify its baseline system so that basic performance data can be easily added to the system. The field office should record and collect at six-month intervals after technical assistance has been provided, information on: i) adoption or implementation of longer-term VE recommendations and ii) employment, sales, exports, investment and existing product lines and subsequent diversification.
- VE services should be made available on a sliding scale basis, as has been done in the Eastern Caribbean, Kenya, and Morocco. This allows country programs to maximize client contributions to cost-sharing programs. In Jamaica, larger firms could pay at least 75 percent and medium-sized firms could pay at least 50 percent.

- Within the remaining LOP, IESC should be required to submit a detailed annual operating budget for future support under an amended EDIP. It is important that USAID have access to revenue and expenditure data for both AID and non-AID funded activities so that a realistic and reasonable revision of USAID funding be made as part of that grant element.

The focus on larger clients will strengthen project implementation and improve export growth. Larger clients are more likely to achieve the expected purpose and outcome of the project: they can expand operations, forge linkages between exporters and producers and increase foreign exchange generation. Equally important, they are likely to become the key spin-off source of Jamaica's next generation of successful entrepreneurs. Larger clients are also more likely to reinforce EDIP-funded privatization and financial sector development through participation in Jamaica's emerging capital market both for new project financing and as investors in newly privatized firms.

Finally, because IESC's field office is already functioning at close to full capacity, we have recommended that i) only one new service—the ABLE program—be added to its activities and that assistance to privatized companies be provided as part of the VE program and not as a new separate option and ii) minor changes be made to improve future monitoring and evaluation of impact.

## **C. Tourism Action Plan Ltd.**

### **C1. Overview**

Jamaica's beaches, culture, and topography have made tourism Jamaica's largest foreign exchange earner. The purpose of USAID/Kingston's cooperative agreement with Tourism Action Plan Ltd. (TAP) was "...to provide financial support to assist TAP create a program that will improve the quality of Jamaica's tourism product." This "tourism product" is described broadly by USAID as the total experience, from disembarking the plane or boat to reboarding. TAP defines the product in a slightly different but similar manner as everything Jamaican, from the aesthetics to the amenities. More specifically the agreement called for TAP to work with and provide support to the Chambers of Commerce in north coast tourist centers to undertake a series of facade improvements and small beautification projects.

USAID/Kingston signed Cooperative Agreement #532-0135-A-00-1058-00 with TAP in July 1991. This agreement extends to May 15, 1994. As of February 28, 1993, USAID showed LOP financing of \$650,000 (a reduction of \$100,000 from the co-op agreement), with obligations of \$401,000, commitments of \$250,000 and disbursements of \$110,790, for activities and administrative support to TAP and the Chambers.

After deducting anticipated Chamber and TAP administrative support costs over the life of the agreement from LOP financing, a total of \$461,895 remains. Deducting funds previously expended for the two small projects (\$13,012) leaves a total of \$448,883. TAP has a \$597,208 pipeline of planned activities for 12 projects, of which USAID's expected

contribution, at 75 percent, will be \$446,906. If all 12 projects are completed, just under \$2,000 would remain at the end of the agreement period. Unfortunately, there is little indication that TAP can organize itself to use funds in a timely fashion.

In addition to the TAP sub-project, other donors are assisting in tourism:

- The jointly financed USAID (grant) and Japan (loan) North Coast Development project covering a variety of infrastructure needs along the north coast.
- Two European Community funded projects—one to improve terminal facilities at Sangster International Airport and another to improve Negril's sewerage system.
- A small Government of the Netherlands community development project in an area encompassing a national park.
- Organization of American States funded tourism studies addressing the social aspects of tourism (completed), environmental impact study of tourism (completed), and economic analysis of tourism (to be done); assistance to the Jamaica Tourist Board (JTB) to develop an awareness campaign and bed'n breakfast standards; and assistance to TAP to provide attractions management training.
- The IDB will undertake later this year a South Coast development study.

## **C2. TAP's Purpose and Organization**

TAP was initiated in 1988 in response to a perceived need to improve the Jamaican tourism product. At the time, the Jamaica Tourist Board (JTB) had responsibility for the tourism product, but was seen as focusing on attracting tourists to Jamaica and not necessarily on ensuring that the tourist had an enjoyable experience. As one person in the industry noted, inadequate attention has been paid to enhancing and strengthening Jamaica's diverse tourism product through proper planning and follow-through. So TAP stepped in to improve the product, primarily by facilitating and coordinating the actions of various agencies and entities involved in tourism.

Originally envisioned as a private company that would sell product management and consulting services, TAP could not raise sufficient start-up capital. TAP failed to raise adequate capital because the business was not viable in the existing market and, perhaps, because investors understood this and TAP could not show them a business plan demonstrating otherwise. TAP did generate about J\$1.15 million and through austere financial management operated until 1991. In 1991, the GOJ contributed towards TAP's cost, and USAID entered into its Cooperative Agreement to contribute to TAP's administrative budget.

Recently, the functions of the JTB that deal with the tourism product were spun off and transferred to TAP to manage. TAP clearly has the responsibility now for defining and developing Jamaica's tourism product. Still, TAP does not have a strategic plan for accomplishing this, not to mention a JTB-to-TAP transition plan. Although staff reductions

have occurred in JTB, the lack of a transition plan has led to confusion and uncertainty in some JTB offices regarding the future management of past JTB duties. For example, concessionaires of sites managed by the JTB through the Jamaica Attractions Development Company (JADCo) reportedly do not know to whom they should make payments.

With TAP's increased management responsibility has come the need to increase staff. TAP is now in the process of expanding from an office of three employees to one of about 60. These people will be responsible for managing previous JTB functions such as JADCo and Recreational Development Company (RDC), development and monitoring of standards for various aspects of the tourism product, licensing, and training. To run JADCo and RDC activities, the GOJ will establish the Tourist Product Development Company, a holding operation staffed by TAP personnel and for which TAP will receive a management fee and budget.

Besides establishing standards and training departments, TAP will also create a Special Projects department. USAID's sub-project through EDIP will be administered by this unit. Currently the project is managed in a tag team manner by two assistants to TAP's Executive Director. It is unclear whether this new arrangement will improve the disbursement of sub-project funds.

Whereas TAP was originally envisioned as a private company, it will now receive the bulk of its funds, some as management fees, from the GOJ. TAP's initial budget request to the GOJ was for J\$85 million for overhead and management of the Tourism Product Development Company. The GOJ will also pay TAP about J\$200,000 in fees for managing the various visitor information booths around the country.

### **C3. Activities Under EDIP**

TAP's Cooperative Agreement with USAID outlines four activities and specific performance targets: complete three planning/design and feasibility studies, two facade improvement projects, six capital projects, and address two major issues affecting tourism centers. TAP indicated that it has completed only two projects through the Chambers of Commerce, both in the category of capital projects, since signing the agreement. TAP's pipeline does include, depending on definition, five or six capital projects, four or five facade improvements, three planning/design undertakings, and regulatory activities—site restoration guidelines (although whether this latter activity is "major" is questionable).

The main reason given by TAP for the slow development of activities is the 40 percent local contribution level required by USAID, although the last TAP six month action plan indicates this to be an obstacle in only five activities. The Cooperative Agreement does allow for "a certain degree of flexibility" regarding local contributions. In a letter dated November 30, 1992, USAID formally informed TAP that a 25 percent local contribution level could be used for designated projects and that TAP should strive to average 40 percent across all Chamber coordinated projects. This was reconfirmed by USAID/Kingston's

Director in another letter of February 8, 1993. However, the transmittal letter of February 10, 1993, from TAP to the Chambers, states that 25 percent is now the minimum local contribution across the board. The various Chambers now believe their contribution need only be 25 percent of total cost. Other factors contributing to slow disbursement include TAP's recent reorganization and the growing size of the projects.

#### **C4. Impact**

The effects of facade upgrading or small infrastructure/beautification projects on tourism are indirect and measuring them is difficult. Nonetheless, as one Chamber member noted, in a tourist environment something good for the community is good for tourism. No doubt the TAP sub-project could have an impact if done on a sufficiently large scale, but USAID's resources are very limited. By PACD, assuming a full disbursement of funds, USAID will have contributed \$650,000 to an industry that in 1991 generated \$750 million. Creating a significant impact is difficult, especially when spread across four or five tourist locations on the North Coast.

In addition, small infrastructure/beautification projects and facade improvements are not a high priority to most visitors and many within the industry. An informal survey of those in the industry, private and public, listed harassment, training/education, and transportation as the three most critical constraints to tourism product development. A JTB 1990 Visitor Satisfaction Survey listed the main complaints as: harassment; unsatisfactory accommodation, food, and service; poor state of the environment; and unfriendly people. The top four reasons for an unsatisfactory stay according to the 1992 survey were: harassment; condition of hotel accommodations; high cost; attitude of locals/unfriendly treatment. This same survey notes that less than 1 percent of respondents listed the poor state of facilities shopping areas as the reason for their dissatisfaction.

This sub-project may have had its greatest impact on the Chambers of Commerce. As noted in the October 1992 in-house evaluation of TAP activities, an important contribution of the sub-project has been the revitalization of the Chambers. Six months later this is still the case. Chamber participation in identifying and managing TAP funded projects has served to underscore the importance of the Chambers in the communities. They are no longer viewed locally as closed clubs of big business.

Each Chamber is undertaking projects outside of TAP that contribute to community development and in each town the Chambers are viewed as de facto town managers. With this new-found responsibility, most Chambers have seen their membership rolls grow while increasing their dues, which over time will further contribute to their long-term viability.

While these effects may have been positive, it is not clear that this activity has contributed to EDIP's goals of increased exports and investment.

## **C5. Self-sustainability**

TAP is not self-sustaining and will not be before the PACD. TAP will rely heavily on the GOJ in budgetary support for implementing activities transferred from the JTB and for most of the near-term management fees it generates. While TAP envisions earning management/consulting fees outside of the GOJ, a market still may not exist for such activities.

USAID's October 1992 in-house evaluation of TAP and the Chambers seems to define self-sustainability rather narrowly as the Chambers ability to cover recurrent costs from membership dues alone. Only the Montego Bay Chamber appears capable of financing recurrent costs from membership dues. Of the Chambers visited, Port Antonio covers 15 percent of its recurrent budget from dues, Ocho Rios covers just under 20 percent, and Negril just under 25 percent. While these numbers are low, self-sustainability can be achieved through more than membership dues. All the Chambers actively undertake income generating activities to cover their costs, e.g., luncheons, dinners, tourist guides/magazines, services (fax, copying, secretarial), office rentals. (For one more year, both Port Antonio and Falmouth will also receive assistance from USAID.) Through their own efforts, all the Chambers visited, appear capable of sustaining activities, including supporting a manager, beyond the PACD.

## **C6. Conclusions**

With respect to the TAP sub-project under EDIP, the following applies:

- The sub-project focuses on a low priority target within the tourism product. In addition, the impact of TAP/Chamber activity on exports and investments is minimal and not objectively verifiable. This has not been a good use of EDIP funds.
- The Chambers have benefitted the most from TAP. Depending on the definition of self-sustainability, the Chambers are striving to achieve self-sustainability. The managers and members attribute this in part to USAID's assistance through TAP.
- TAP's reorganization is transforming it from an independent private sector entity (that it never really was) into a quasi-governmental bureaucracy. TAP is now dependent on the GOJ for its budget. It is questionable whether TAP will be able to effectively put donor funds to work during this transition period.
- The growth in TAP's responsibilities to enhance the tourism product will change the way the organization operates and perhaps will not capitalize on the strengths of the original management team. The difficulties noted in their managing of the transition from JTB to TAP may be one indication of this.



- Although there will be a special unit to manage TAP's Cooperative Agreement with USAID, this is unlikely to improve the disbursement of funds. Even reducing the local contribution component to 25 percent is unlikely to result in the disbursement of the remaining funds.
- While there are a number of donors working in tourism, none are working directly with the private tourism sector.

## **C7. Recommendations**

The following recommendations consider TAP's current operation under EDIP and possibilities for future intervention in the tourism sector by USAID in an amended EDIP.

TAP still needs a strategic plan, even more so now that certain JTB functions will be its responsibility; however, it is not recommended that this now be undertaken through EDIP. There are simply too many uncertainties surrounding TAP and the commitment of its management to the need for a strategic plan. Further, the ability of TAP to organize and deliver may even diminish as it goes through a period of rapid growth.

USAID should proceed with its commitment to contribute to the administrative costs of TAP and selected Chambers as originally planned for in the Cooperative Agreement. With respect to small project and facade funding, TAP has set a July 1 deadline for the Chambers to submit all necessary documentation, e.g., budgets, work calendars. By July 15, each project for which TAP cannot submit to USAID firm, supportable project documentation should be cut from the budget and the funds used elsewhere for other uses within the EDIP project.

## **D. National Development Foundation**

### **D1. Overview**

For the last ten years, USAID has provided funds to the National Development Foundation of Jamaica (NDF/J) through grants and loans primarily for on-lending to its clientele. The NDF/J, according to its working draft audit report for 1992, has a balance owed to USAID of J\$3.4 million at 5 percent interest.

Under EDIP, USAID obligated \$131,000 in grant funds to provide credit financing for NDF/J's lending program as well as for the establishment of a feeder industry supplying larger manufacturers with semi-processed or raw material. The feeder program was never implemented and, rather than provide additional grant funds for on-lending, USAID decided to use the funds to improve the NDF/J's operating efficiency and sustainability. To date only 3 percent of the earmarked funds have been used.

There is a considerable amount of donor activity within the micro and small business sector:

- In 1990, USAID established the \$2 million Microenterprise Development project to work with microenterprises and small business needs.
- CIDA has given NDF/J a \$2 million grant for field vehicles, computer equipment, technical assistance, and on-lending to small businesses at less than market rates.
- COPE, a CIDA created non-governmental organization (NGO) for pre-micro enterprises, is receiving \$1.25 million for credit training and counselling and to implement a credit program.
- The Dutch are providing money to the Trafalgar Development Bank, which wholesales funds to credit unions and NGOs (e.g., NDF), with interest computed at a weighted average commercial deposit rate.
- Besides funds for agricultural lending, in October 1992, the GTZ signed a memorandum of understanding with the NDF/J to provide technical assistance in appropriate technology, microbusiness and agriculture, management and in establishing a savings operation; vehicles; computer software and hardware; international exchange/travel; and local training for NDF/J staff. In addition, the GTZ will contribute DM 800,000 "to increase the income generating capacity of NDF/J..."
- The EC is considering establishing a program similar to that of the Dutch through commercial banks.

## **D2. NDF/J Purpose and Organization**

The NDF/J, which maintains offices country-wide, is an NGO lending institution. Its main purpose is to encourage and promote development of the small business sector, enabling entrepreneurs to enhance the quality of their lives. The NDF/J lists its objectives as:

- To assist growth and development of small businesses
- To generate nationwide employment opportunities
- To provide credit to groups and individuals who do not qualify for traditional loans.

At a strategy session last year for management and employees, participants described NDF/J's services as first business counselling and training, then credit financing, and finally as project development-management-monitoring and loan packaging. Top-level management described NDF/J as a "one-stop entrepreneur shop" and sees their responsibility as doing

whatever is necessary to keep the market small business credit available to the small business person.

In this vein, the NDF/J has established a technical services and training unit (TST) to provide business counselling, advice, and promotion services to credit recipients. NDF/J is planning to expand TST as well as its library and to establish a business development center to provide services to entrepreneurs (e.g., faxing, copying, computing, etc.). The NDF/J has also recently launched its Venture Capital Investment Programme.

The NDF/J is perceived by most as a well run organization. They are reported as having the largest share among competitors of the micro and small lending market, but have not significantly penetrated the potential market. They are attempting to redefine their portfolio, moving it upscale towards small and medium-sized businesses. At the upper end this may occasionally bring them into competition with the commercial banks.

### **D3. Activities under EDIP**

To date, NDF/J has not undertaken any activities using EDIP funding. Initially, NDF/J was interested in tapping the obligated funds as capital for on-lending purposes. When USAID insisted that this money be lent at market rates, NDF/J balked. USAID has subsequently requested that the funds be used to put NDF/J on a more bank-like footing. USAID and the NDF/J have exchanged a series of letters, culminating in a tentative understanding that NDF/J would use some portion of the funds to review its operating policies and procedures. NDF/J has submitted terms of reference for such a review:

- To collate existing documentation related to policies and procedures.
- To assist management to review and revise policies and procedures.
- To conduct such meetings and interviews as may be necessary for the finalization of policies and procedures.
- To produce a manual that will specifically address NDF/J's mainstream operations in Banking and Technical Services and Training.

### **D4. Impact**

There is no impact to measure as the NDF/J has undertaken no activities with EDIP funds. Nevertheless, USAID's insistence (and that of other donors) that the NDF/J lend at market rates or use the funds to improve its operations has had some effect, as management appears to accept the wisdom of market rate lending. At a recent meeting, management indicated that its effective annual rate of interest is now around 43 percent applied to medium term loans (three to four years).

## **D5. Self-sustainability**

The NDF/J notes that it has achieved an operating surplus each year since 1990. The draft working audit papers show an operating surplus for 1992 of J\$8,225,000, and accumulated surplus of J\$12,432,000. This performance is based largely on income earned from loan and deposit interest, income from the TST endowment fund, and membership fees less operating costs from lending and TST. In 1992, the TST endowment fund earned J\$8.5 million against TST costs of J\$5.1 million.

The future availability of grant funds is uncertain, as is the likelihood of obtaining low-interest loans. In 1991, grants represented 62 percent of total available and lent funds. In 1992, this fell to 48 percent.

As low cost and grant fund sources dry up, the NDF/J's costs of operation will increase above already very high levels. This is due to inefficiencies that limit the number of loans made annually. Loan value increased from J\$16,941,200 in 1988, to J\$19,410,878 in 1989, to J\$28,239,577 in 1990, to J\$33,839,951 in 1991, to J\$41,508,700 in 1992. After adjusting for inflation, which varied from at 17.2 percent to 80.2 percent between 1989 and 1992, NDF/J's portfolio growth in real terms is significantly lower and actually decreased by 2 percent in 1989, by 33 percent in 1991 and by 12 percent in 1992. From 1988 to the end of 1991, the number of loans only grew from 592 to 674.

A quick analysis was made of operating costs against total portfolio and against disbursed loans for 1991 and 1992, both with and without TST costs. In 1991, loan related operating costs, i.e., without TST, averaged J\$0.18 for every dollar in the portfolio. In 1992, this cost increased to J\$0.21. With the addition of TST costs, average costs increased to J\$0.25 for every dollar in the portfolio in 1991 and J\$0.28 in 1992. The operating cost per dollar of credit disbursed annually equalled J\$0.37 in both 1991 and 1992. With the addition of TST costs, the average cost per dollar disbursed yearly increased to J\$0.48 in both years.

While the NDF/J feels it is self-sustainable, there is plenty of room for improvement in the costs of its operation. As the cost of its funds increases, it will be important for the NDF/J to improve the efficiency of its operation.

## **D6. Conclusions**

The NDF/J has made progress over the years but must improve its efficiency if it is to achieve long-lasting sustainability. With respect to EDIP:

- The NDF/J has not used USAID funds because of fundamental differences of opinion on the application of market interest rates to the loans.

- The NDF/J is now acting to apply near-market rates (currently over 40 percent) and to achieve more efficient operations (according to recent discussions and letters).
- The NDF/J, and the micro- to small enterprise sector in general, is receiving assistance—grants and loans—from several other donors.
- NDF/J has required a considerable amount of management time on the part of USAID, given the level of funding involved and the fact that no funds have been drawn down.
- There has been no activity to measure, but direct impact on investment and exports would be difficult to measure had there been.

#### **D7. Recommendations**

USAID should wind down its assistance to NDF/J, honoring those commitments it may have. Based on conversations and a review of correspondence, USAID does have a tentative commitment to NDF/J to carry out an analysis of its operations. NDF/J, however, should seriously strengthen the terms of reference submitted which do not address NDF/J's problems in a serious manner. The terms can be strengthened as follows:

- To suggest appropriate new policies and procedures as required to reduce operating costs, and a program for implementing such.
- To identify staff redundancies and areas for professional training.
- To identify appropriate performance indicators and to establish target objectives against calculated actual as of December 31, 1992.
- To suggest appropriate new policies and procedures as necessary to remove any gender biases.

All other remaining funds obligated for NDF/J should be de-earmarked.

The NDF/J has grown over the years and is receiving assistance from other donors. Given USAID's existing microenterprise development project, it is recommended that USAID not consider NDF/J for the amended EDIP. While not considered necessary, if the need arose to work with NDF/J, this might be done through USAID's microenterprise project.

## **E. Small Business Association of Jamaica**

### **E1. Overview**

USAID PIL #25 of September 5, 1991, earmarks \$50,000 for the Small Business Association of Jamaica (SBAJ). To date, the SBAJ has not drawn down these grant funds. The SBAJ is to use this grant to develop its own business plan "which when implemented will form the basis of the organization's long-term commercial viability." The plan is to encompass a description of the association and its objectives, market analysis, design and development plan, operation plan, implementation schedule, financial plan, and identify priority areas for implementation.

A year after PIL #25, the SBAJ submitted to USAID the names of three possible candidates to prepare the plan, but without any proposals. USAID passed this information to JAMPRO, as the funds would move through it, with the request that JAMPRO include this activity in its six month action plan. At the same time, USAID sent a letter to SBAJ informing them of the process and JAMPRO's role. In late January 1993, JAMPRO asked SBAJ to request written proposals from the three individuals listed in SBAJ's earlier letter. These proposals were to follow the guidelines set out by USAID as to content and award criteria. SBAJ received three proposals and furnished copies to USAID on or about March 10, 1993. The Contracts Award Committee awarded the contract on March 16.

### **E2. SBAJ Purpose and Organization**

SBAJ has functioned for 19 years as an association of small businesses. A small business is defined by the association as having zero to \$1 million in capital, excluding land and building.

The SBAJ has about 1,500 members (50 percent to 60 percent women), of which 600 to 700 have paid up memberships. Annual fees run J\$350, plus an additional J\$100 to support the bulk purchasing program. The SBAJ's annual budget is reportedly J\$500,000.

The association provides a number of services to its members, including:

- Advocacy and lobbying, voicing the concerns of the small business sector. The SBAJ is represented on the National Planning Council.
- Bulk Purchasing Program. This program was started with J\$2 million to purchase commodities in bulk needed by its membership. The SBAJ notes that the fund has turned over several times and actually generates a small profit after deducting direct operating costs. The above mentioned J\$100 contribution is used to increase the fund size.
- Library.

- **Flea Market.** This once-a-week market is reportedly a big money maker, contributing significantly to budget shortfalls. The SBAJ charges a weekly registration of J\$100 (\$80 for members) and stall fees of J\$50.
- **Training.** The association organizes training sessions for small business operators. By their count these monthly training sessions are given to an average of 35 to 40 participants.
- **Trade Center.** The association operates a trade center in a small building of about 10 units. Space is rented to members only for about J\$300 to J\$500 per unit. Most of the space is used for retail operations, although there is some production space.

The SBAJ has a Board of Directors and a managing secretariat. The board is comprised of successful, usually larger, small business owners. Of the 14 members on the board, nine are women. Various sub-committees provide oversight of the different services offered.

### **E3. Activities**

To date, the SBAJ has not undertaken any activities using EDIP funds. The only planned activity is the development of a business plan, which is recognized by others as essential if the association is to live up to its potential. This activity will require less than \$25,000.

### **E4. Impact**

As there has been no activity, there is no impact to measure. With the timely development and implementation of a business plan, it is expected that measurable impact at both the association and small business level could result by PACD.

Development and implementation of a business plan conceivably could have some impact at the institutional level and less directly at the small business level. At the SBAJ level, there should be improvements in operations, identification and offering of pertinent member services, and an increase in dues paying members. At the small business level, a sampling of active members could show an increase, as a result of SBAJ services, in productivity, sales volume and value, profits, and employees.

### **E5. Self-sustainability**

The SBAJ is not self-sustaining on dues alone, but covers its budgetary shortfall with revenue generated primarily by the flea market. The Association is unlikely to be self-sufficient from dues alone by the end of EDIP; however, the business plan should provide

the SBAJ the direction needed to improve, and profit from, member services and give the Association long-term viability.

#### **E6. Conclusions**

Although slow to get underway, the SBAJ has finally selected a contractor to develop a business plan for the association. While there are mixed opinions as to SBAJ's effectiveness, USAID now has an obligation, if not a legal commitment, to finance the business plan. Even with a business plan though, direct impact on investment and export will be difficult to measure.

#### **E7. Recommendations**

USAID should finance the business plan at an estimated cost of \$18,350. Depending on the quality, utility, and timeliness of the product, USAID could fund follow-on work, especially in potentially self-financing services, e.g., commodity purchasing program, training, flea market, and the trade center. However, if no follow-on proposals materialize that meet EDIP project objectives, USAID should terminate this activity.

USAID should not extend support to the SBAJ in an amended EDIP. If necessary, such assistance should be provided through the Microenterprise Development project.



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## **SECTION III ECONOMIC POLICY REFORM**

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### **A. Review of Policies**

#### **A1. Financial Sector Reform**

Jamaica's financial sector is fairly well developed with a central bank, more than 25 commercial banks, and a variety of other banks, including merchant banks, trust companies, credit unions, savings and loan associations, building societies and an active insurance industry. In addition, the sector includes a number of specialized financial and investment institutions, including unit trusts, a venture capital fund and the Jamaica Stock Exchange. Much of the basic legislation necessary to correct deficiencies in the banking system, to provide for regulation, to increase competition and to provide stable, responsive and competitive financial markets is now in place. The next step is to provide for the strengthening of certain key institutions, so that they can effectively implement policy reforms, provide a fair and flexible regulatory setting and thus help create an overall positive environment in which private investment and its related effects, employment creation and foreign exchange generation, can grow.

##### **A1a. Securities Market Act**

The Securities Market Act, providing for a Securities Commission (SC), went to Parliament in early March 1993. This Act will bring an unregulated sector into a more modern regulatory framework, facilitating a stable development of the sector, broadening the base of investors and protecting small investors. It contemplates the creation of a Securities Commission and its functions.

The regulatory framework is of high priority given the accelerated activity of the securities market, its future trends and its high potential for new sourcing of capital for new investments. The economy has matured and there is a growing appetite for new investment opportunities on the part of institutional investors (insurance companies) and individual investors. Thus a growing pool of capital will be required to finance these investment opportunities. The securities market is one of the most vibrant subsectors of the Jamaican economy and will increasingly stimulate investment in Jamaica through a shift from debt to equity financing. The study team feels this will be the case despite the current level of speculation in the market. In addition, the securities market may take on regional importance and once foreign exchange restrictions in the two other Caribbean countries with stock exchanges, Barbados and Trinidad, are lifted or reduced, the regional market will become even more important.

The Securities Commission will be a principal ingredient in the overall reform of Jamaica's financial sector and can play a catalytic role in the whole reform process. It will

support other reforms: privatization, fair competition and the modernization in the overall financial sector. An effective Securities Commission should not only be able to carry out the role of regulator, but also should act as the principal promoter of the development of the securities market. The Securities Act should be amended to include a section on financial dispute settlement in a specialized dispute court. The existence of such a court will limit the discretionary power of the SC in interpreting rules and applying sanctions. Part of the functions of the specialized court would be arbitration between parties.

In brief, the Securities Market legislation provides for the requirements to create a stock exchange, for a securities commission to license exchanges and regulate their operations, for the rules of behavior that will guide the operations of exchanges, for the necessary accounting and auditing of exchange operations and for the general regulation of the conduct of the securities business. The immediate impact should be a stock exchange that operates in a fairer and more transparent manner than in the past, with a consequent increase in investor confidence. It also calls for the expansion of secondary markets, increased numbers of brokers and that the tax treatment of equity and debt instruments be equalized. The overall objective of the legislation and resulting regulation is to improve the investment environment via more stable, responsive and competitive financial markets.

Once created, the new Securities Commission should:

- Promote the development of the securities market and the supporting private sector infrastructure, e.g., the modernization of the JSE, the creation of private rating agencies, etc.
- Promote competition and transparency in primary and secondary securities markets.
- Set/enforce appropriate regulations and monitor activities.
- Disseminate accurate, timely financial information from companies, financial intermediaries, and from independent, third-party, objective sources.
- Promote the creation of collective investment funds.
- Prepare, by training, a fully qualified professional staff.

The regulatory arrangements which are conceived must be consonant with the stage of development of the securities market. Currently, the market is in a relatively early stage, thus requiring only a modest regulatory framework. As the securities market evolves, appropriate new arrangements may be made.

A corollary of the need for regulatory restraint at this stage is the opportunity for the Securities Commission to play an important catalytic role in the development of Jamaica's financial and enterprise sectors. To play this role, it must proceed in a synchronized manner with other reform measures. The successful privatization and subsequent sale of

government's ownership in enterprises, such as the Hotel Pegasus and the final tranche of Caribbean cement shares, will depend heavily on the presence of a regulated securities market. Furthermore, an effective securities market will create competition for the banking industry, thus helping to accelerate its modernizations and create positive real interest rates.

The creation of collective investment vehicles, e.g., mutual funds, can diversify investments, thus broadening the base of ownership by the investing public. Their creation and success will depend on the transparency offered by accurate financial disclosure, however, professional managers of investment funds can cause the upgrading of information provided to investors. Modernization of the securities market itself should permit the secondary market trading in debt instruments and could also stimulate the development of both subordinated and convertible debt instruments. This will also assist the creation of a government medium and long-term bond market.

The institutional definition of the Securities Commission situates it with respect to the government. Ideally, it should be an autonomous, accountable and technical entity. It does not appear from the legislation, however, that its autonomy is ensured (Ministerial Directions and Regulations, are instructive in this regard). It also has no central role in the setting of policies which would affect the development of securities markets. Since formal regulations cannot cover all possible practices, the Securities Commission should be empowered to establish rules and guidelines that may be more readily applicable to changing conditions. The objective of this task is to review the legal and regulatory frameworks governing capital markets and make recommendations as to adjustments that can be made in order to enhance the safety and soundness of the overall system, while providing mechanisms for timely adjustment to respond to changing market conditions. The Securities Commission's organization structure should be driven by its institutional mission and should be the one best suited to accomplishing its mandate.

Annex E provides a suggested organization structure for a securities commission, a list of activities it might carry out, and a suggested work plan that it and a technical assistance team would implement. Additional suggested elements on legislation, either in the form of the Act or in guidelines for the implementation of the Act, are included in detail in Appendix E.

#### **A1b. Jamaica Stock Exchange Modernization**

As part of the reform of the securities market, the Jamaica Stock Exchange (JSE) must be modernized. Since its inception, the stock exchange has operated on a "self-regulated" basis. Under the new Securities Act, a Securities Commission will be established and one of its principal tasks will be to regulate the JSE. Beginning in 1986, the JSE became more active and in 1991/92 grew significantly - capitalization grew at a 200 percent rate to a total of US\$3 billion and to the point where today there are 90 companies listed, 9 brokerage houses, and 43 registered brokers. Part of the growth of the JSE is accounted for by a combination of greater confidence in the economy and its reform process, an insurance industry with a high degree of liquidity and the foreign remittances by many Jamaican expatriates.

At present, the JSE operates with rudimentary manual trading arrangements and settlement operations. The trading of shares on the exchange is a cumbersome process, with inordinately long settlement and periods for delivery of share certificates (up to six months), with broker failures, errors and loss of dividends. Following are the principal reasons why the JSE should be modernized, both in terms of systems and computerization:

- As the securities market grows and capital markets become more liquid, the JSE must be ready and capable of handling the increased volume of transactions that will accompany automated trading.
- It will force the regulation of the JSE, reducing settlement risks and fraud, and thus help strengthen confidence in Jamaica's capital markets, expand the types of investment instruments traded, open up secondary market trading in a variety of debt instruments, and strengthen the financial auditing procedures which listed companies use for reporting.
- It will better prepare to facilitate the sale of government shares in privatized enterprises to the private investing public on a wide-scale basis, and to be a principal ingredient in the overall reform of Jamaica's financial sector.
- It will require Jamaica to adopt the standards of the international securities industry and thus be more competitive in the international market. This will enable Jamaica to become a leading stock exchange for Caribbean countries (Jamaica, Barbados and Trinidad) and further promote Jamaica's role as a regional financial center.
- It will be a catalytic factor in the updating of the Companies Act in response to an increasingly complex business environment, as well as in the revision of other financial legislation, including the trust law for the creation of a central depository system as an amendment to the Companies Act, which will facilitate the creation of a modern trading system. The process of transferring ownership of companies based on the Companies Act now requires long and cumbersome procedures.

It will attract individual and institutional investors, both domestic and foreign, who require an efficient, risk-free trading environment, and a larger variety of financial and investment instruments.

AID has considerable experience in developing countries in providing technical assistance for the operational reform of stock exchanges and in establishing and making operational clearing houses, central depository organizations and investors' protection funds. The appropriate assistance to the JSE would help ensure that it becomes a reliable, strong, technical institution. We learned in the process of the evaluation that the Stock Exchange has about J\$100 million in reserve that might be applied to such modernization.

An automated (computer network) system would consist of both trading and back office systems and would employ software capable of tracking both equity and bond trading. A small amount of custom software would have to be written to provide the custom

component of each trading system (equity, bonds). Such systems typically provide the following benefits:

- Automatic, immediate, anonymous matching of bids and offers, with immediate execution and confirmation of trades to both parties and to the market.
- Simplified clearing and settlement, with elimination of errors and mismatched trades.
- Elimination of handwritten paperwork and lengthy post-trade checking.
- A more efficient and transparent market.
- Compliance to the Securities Commission regulations via system surveillance data and observance of trading rules and regulations.
- Configured on the premises of the Exchange or in the offices of the individual brokers and can be linked to other EDP systems for the transfer of market data and other key information, as well as for trading purposes. The computerization system would be conceived as one of "building blocks" that evolves in scale and sophistication as the market evolves. It begins as a relatively simple system and becomes sophisticated as the sophistication of transactions grows. Such an "evolutionary" system will avoid high costs to be charged as transactions fees when there are only a few transactions.
- Formal and on-the-job training could be provided, as well as short-term foreign training for key personnel. Short-term foreign training opportunities would also be used to establish international networking for exchange of information and experience as the JSE evolves.

A recommended strategy for modernization and regulation of the Stock Exchange is included in Appendix E of this report.

#### **A1c. Banking Act of 1992, Financial Institutions Act and Amendment to the Bank of Jamaica Act**

In 1992, both the Banking Act (regulating the commercial banks) and the Financial Institutions Act (regulating the merchant banks) were passed. The Financial Institutions Act basically mirrors the Banking Act. These acts were required for a variety of reasons:

- The banking system had an overall debt/equity ratio of 25:1, increasing "off-balance sheet" operations, and was operating according to a "gentleman's approach to banking, (usually unregulated)" creating increased risks.
- To provide for regulation of the commercial and merchant banks more in line with modern international standards.

- To correct the deficiencies present in the previous banking acts which hindered sound regulation and reduced the effectiveness of monitoring policy measures.
- To improve accountability of the banks and instil integrity into the operations.
- To protect depositors and investors.
- To provide for supervision and regular examination of banks by the Bank of Jamaica.
- To allow for growth in the commercial and merchant banking sector within a stable framework.

The Amendment to the Bank of Jamaica Act, approved in 1992, principally deals with the strengthening of the supervisory power and rationalization of the BOJ's Supervisory Department, without creating excessive hardship for the banks. The Supervisory Department will carry out the functions of regular examination of banks and issuing reports to the Minister of Finance. According to the IDB (December 1992 Aide Memoire), the technical assistance to strengthen prudential regulation and supervisory capacity has been contracted. This technical assistance is sorely needed as the BOJ's capacity to implement its supervisory role is weak, and it lacks sufficient, well-trained personnel. The organization of the Supervisory Department and its strengthening will be critical for its success as well as for that of the banking system.

The Banking Act is very general in nature, thus putting the focus on implementation of the Act, since this is how reform will really take place and how the reforms will be applied. Therefore, the writing of regulations, prudential norms, guidelines and manuals, as well the appropriate training of personnel, will serve as the basis for the application of the reforms. In short, the activity would be to write the regulations, follow-up the regulations, and enforce them. This will be in large measure the responsibility of the Supervisory Department.

The new Acts regulate only the most important institutions of the market, the commercial banks and the merchant banks. Trust companies, private investment banks and unit trusts will probably "abide" by the Banking and Financial Institutions Acts. Other institutions will still remain unregulated or be "uncertainly" regulated.

Application of the Banking Act should be extended to credit unions, building societies, peoples cooperative banks and other non-bank financial institutions. Extension of appropriate and reasonable regulation, coupled with adequate supervision, can strengthen these financial institutions and make them stronger competitors to the banks. The Banking Act leaves the state and private development banks outside the purview of BOJ regulation and supervision. For development banks special considerations such as eligibility and interest rate criteria for development bank on lending, establishment of credit policy guidelines for the recipient second-tier institutions, and project appraisal responsibilities and risk-taking criteria/levels for these recipients. State financial institutions need to be regulated

and their roles limited and focused, so that they do not become "unfair" competitors to the private sector institutions.

Overall consolidation (through mergers and acquisitions, as well as through liquidation) will probably be an immediate response of the sector to the new Acts. This structuring of the sector is needed to strengthen it. Licensing for new banks is de facto suspended.

Another aspect of the legislation is its provision of a high degree of discretionary power to the Minister of Finance in the supervisory role of the BOJ, an element which can lead to political intervention and the creation of uncertainty in the sector.

Since reform will really take place through the implementation of policy, it is extremely important that technical assistance focus on the building/strengthening of the institutions which will be responsible for policy implementation. This implies that technical assistance should be long-term and should concentrate on the implementation side as well as on training of counterparts. This activity is handled adequately by the IDB and no further activity is required by USAID.

#### **A1d. Studies for an Independent Bank of Jamaica Act**

As USAID points out in its description of the Policy Reform in Support of Private Investment Program, the policy making and implementation roles of the monetary and fiscal institutions must be clarified. It calls for more defined roles for the Bank of Jamaica (monetary) and the Ministry of Finance (fiscal). Monetary and foreign exchange policies as well as regulation of the financial sector should fall clearly under the BOJ's purview, and should not be under the Ministry of Finance.

Presently, the BOJ operates under the aegis of the Ministry of Finance and thus is not an autonomous body. A study is required to determine the steps necessary to make the BOJ a more independent, technical entity. This would allow it to operate without providing for the separation of fiscal and monetary policy, and avoiding the present situation of financing the fiscal deficit by the printing press and thus increasing inflation. This separation of institutions will separate monetary policy from fiscal policy. It should be noted that in May, 1992, the Government appointed a commission to examine the role of the Central Bank, and the modus operandi to appoint its Governor. This commission has not yet reported its findings, but it is likely that there will be some over-lap between that report and the actions recommended here and in the New Activities Section E of Section V.

The creation of an independent BOJ will require an amendment to the original BOJ Act. Passage of such an amendment will mean a fundamental reform that will affect the stability of the entire financial sector. An independent BOJ would allow for an independent, politically neutral, technical supervisory department with a high degree of integrity. The bank and supervisory reform of the BOJ Act is highly necessary to provide a stable monetary policy, as well as for the stable development of the financial sector.

**This step to independence would require technical assistance in the preparation of the amendment. To compare different experiences of central banks, the technical assistance may include the advice/assistance of representatives of central banks such as the Bank of England, the Federal Reserve, the Bundesbank, and the Central Banks of Argentina and Chile. These last two central banks would be important because they have both recently enacted independent central bank laws. The assistance should also include observational visits of Jamaican officials to these central banks.**

**The BOJ has published audited financial statements with delay and only once a year, thus immediate action should be taken to make the BOJ more accountable by requiring it to provide more timely (perhaps four times per year), externally audited financial statements to the public. To further increase monetary stability, the BOJ should be able to follow an accurate monetary program for a period of at least one year, which has to be pre-announced.**

**An essential component of such a monetary program should be a forecast of cash flow needs from the GOJ, which will help the BOJ forecast the amount of financial resources it must provide the government. The BOJ should start charging interest rates for these loans to the government and thus generate revenues to help compensate for the losses incurred by past loans to the GOJ.**

**Activities in support of the creation of an independent Central Bank are envisioned as a possible future activity under an amended EDIP project (see Section V).**

## **A2. Government Sector Reform**

**Jamaica's economic liberalization process has progressed to where the implementation of policy and the economic management of the country are now the main challenges. To meet these challenges will call for strong, well-managed public sector institutions. Certain enabling legislation has been enacted, yet there are still deficiencies to be corrected and a serious need for institutional strengthening, especially the organization of management functions, greatly increased accountability in government, modernization of systems and most important, the ability of the GOJ to prepare and manage its fiscal policy.**

### **A2a. Amendment of Financial Administration and Audit Act**

**In general, most levels of the public sector have been characterized by little financial discipline and accountability, with the result that government entities have weak financial control systems. The Amendment of the FAA Act seeks to provide more accountability and transparency in the management of government finance. A higher degree of accountability will directly force better financial management throughout the government, timely financial reporting and better budget implementation. It will also help focus individual governmental units' attention on their planning and other preparatory work, operations, and expenditures.**

**To strengthen accountability, implementation support will be needed, in the form of technical assistance, training and the preparation of guidelines and manuals. Since the**



principle of accountability also means responsibility, those accountable (and responsible) should be able to participate in the planning and budget preparation process.

The FAA Act complements the ongoing public administration reform which focuses on strengthening the organization, operation and efficiency of public sector entities. Technical assistance should be coupled with institutional capacity building, and thus will require the use of long-term specialists so that the government entities can absorb the necessary skills and eventually become self-sufficient. In the case of public enterprises (PEs), the FAA Act will give these companies incentive to perform more like private sector firms, both in terms of management and disclosure of financial information. A major impediment to capacity building are the salaries paid to public sector employees, which are substantially lower than those paid by the private sector for comparable jobs. This situation will have to be rectified if the GOJ is to attract the necessary talent to run a government in an increasingly sophisticated and dynamic economy.

We anticipate that USAID will only become involved in government financial reform through its support of the Fiscal Policy Management Unit.

#### **A2b. Tax Reform and Revenue Enhancement Initiatives; Customs Reform**

Since 1985, Jamaica has reformed and simplified its tax system, instituting a simplified legal structure, and introducing a flat rate (25 percent) personal income tax, a simplified and reduced rate (33.3 percent) company tax, a dividend tax rate (33.3 percent) and a general consumption tax (GCT) of 10 percent. Presently studies are underway to reduce the corporate and dividend tax rates to 25 percent. Moreover, a successful training program for tax personnel has been carried out. The enactment of the GCT in 1991 replaced eight separate taxes with one, significantly reducing the GOJ's administrative burden. It also reduced the combined tax rate of the former eight taxes, removed many of the complexities which allowed tax evasion, and has produced more tax revenue than the projected amount the former eight taxes would have produced. In August 1992, tax courts were introduced to handle tax law violators. Tax revenues now represent 76 percent of total government revenues.

The impact of these reforms has been positive. Taxation growth corresponds to economic growth and to inflation in terms of increased revenues collected and is much more "neutral" in its effect upon a variety of business decisions, e.g., financing expansion via debt or equity, as well as on the decision to comply with or to evade tax payment. In general, the fairness of the law and its ability to generate revenues have not been compromised to date by influences leading to discretionary changes, loopholes and exemptions.

Nevertheless, improvements are needed:

- Tax collection could be made more efficient through a combination of strengthened administration and modernization of record keeping, reporting and monitoring. For example, there is no "matching system" between taxable income declaration and what the taxpayer really received (a U.S. example would be dividend income

declared by the taxpayer on Form 1040 versus the dividend reported on Form 1099). This is particularly true with the self-employed in that there is a severe problem in even identifying who they are. Strengthening the tax administration would entail the provision for additional field personnel, computerization and automation of the system and continued training of staff and administrators.

- Enforcement, entailing taxpayer audits, associated collection rates and application of penalties, is not rigorous. Increased rigor would derive from a strengthened tax administration and system modernization.
- The structure of the tax system needs further simplification and alteration to remove preferential treatment, to increase the degree of progressiveness in the tax rates for lower income recipients, to increase uniformity in the administration of the system and to increase equitable treatment of sources of income.
- Tax planning and reform should be made consistent with fiscal policy and in turn with overall economic policy.
- Establishment of a "fiscal analysis unit." This is the topic of the next section, Fiscal Policy Management Unit.

An important area of tax reform is that of customs and its implementation within the Jamaica Customs and Excise Department (CED). A modern, effective CED is critical for Jamaica's economy since its collections account for approximately 30 percent of the government's revenues. The important position of the CED, coupled with its present deficiencies, argue for large-scale, rapid reform. Furthermore, the CED's Revenue Protection Division, in charge of investigating fraud, corruption and supplier under-invoicing, is hobbled by a small staff (23), but faced with an annual fraud and corruption level of approximately US\$135 million - equivalent to Jamaica's yearly budget deficit.

Modernization, standardization and streamlining of the system plus significant staff improvements are required. The personnel factor, according to the U.S. Customs Service (USCS), is perhaps even more important than modernization of the system. According to the USCS, CED's personnel are poorly trained, poorly supervised, and poorly paid. A labor-intensive, nonstandardized system leads to abuse, bureaucracy and red tape, with the concomitant adverse effects on the operation of both business and government.

USAID should consider providing technical assistance to CED under an amended EDIP project in the following areas:

- Revamping personnel procedures starting with the personnel selection process, the quality and type of training needed both now and in the future to be able to operate a modernized, standardized system, the quality of supervision and management, and ending with the ability and requirement to fire/imprison any corrupt employees. The objective is to improve the quality, effectiveness and integrity of the CED work force.

- Automation/computerization, streamlining, standardization and rationalization of customs activities and procedures. A good (and simple) example of rationalization of one of CED's activities would be the application of sampling to cargo examination.
- A firm commitment from both the government and the private sector to enact the necessary legislative changes and give the Ministry of Finance sufficient backing to implement a total reform package.

It will be necessary that technical assistance continues to be provided to the GOJ to ensure complete implementation of the tax reforms, including training, registration of businesses, and the analysis of tax policy through the FPMU to attain desired economic objectives as well as to avoid weakening of the tax system. With respect to customs reforms, USAID, in coordination with other donors, may consider working with the GOJ to institute the necessary legislation and to ensure implementation of the reforms. In this connection, it will be necessary to provide the computer hardware and software to enable the required system improvements.

#### **A2c. Fiscal Policy Management Unit**

Continued progress in and the ultimate success of Jamaica's economic liberalization program and its transition to a private sector driven economy will be, in part, dependent on the GOJ's ability to prepare and manage its fiscal policy effectively. Moreover, transformation of the Bank of Jamaica into the institution which will determine monetary policy independently will require both sound fiscal policies and a Ministry of Finance able to take the lead in setting and implementing fiscal policy. The creation and establishment of a Fiscal Policy Management Unit (FPMU) within the MOF's Economic Management Division to strengthen the technical capabilities of a Ministry which has responsibility for overall economic policy has been one objective of USAID's EDIP project. The objective is to place the Ministry at the center of fiscal policy formulation and implementation.

The objective of establishing such a unit is to give the MOF the technical and analytical ability to set sound fiscal targets, set a national budget based on these targets and then guide and monitor implementation of the budget. Budget preparation, implementation, reporting and monitoring are key since the entire budget exercise is the government's principal fiscal policy tool. These technical supporting activities in the MOF are being addressed by the World Bank's Administrative Reform Project. Corollary objectives of the FPMU are to strengthen the MOF's ability to plan public expenditures, to plan the use of resources and, to structure the national budget so that there is clear, firm linkage between the budget and developmental policies. Thus the FPMU would have fiscal policy formulation, analysis and management responsibilities, as well as an advisory role vis-a-vis the MOF's position in coordinating economic policies and management.

In the Jamaican context the attainment of fiscal policy goals depends mainly on two factors: the political will to carry out the policies and the technical capacity to design and manage the policies. The FPMU will focus on the technical capacity factor. As a technical

unit, it must be independent in the sense that it does not become overly identified with policy and politically sensitive issues, and must be technically sound so that it engenders trust in its work regardless of the party in power.

The best way for the FPMU to achieve independence and engender credibility is to establish an agenda of technically sound objectives and projects with clearly stated responsibilities, timetables, and budgets. The agenda will also be important to avoid the perception that it is a panacea for all problems, and gets diverted from the fundamental subjects of reform into handling "everyday" situations as a "firefighter." On the other hand, some flexibility should be allowed in order to serve permanent requirements of the Minister in analyzing issues, problems, etc.

Jointly, the FPMU and the Minister of Finance will have to elaborate a menu of policy issues and priorities, so that the FPMU can structure an agenda and a focused work plan.

In addition to a sound work agenda, the FPMU will need a small, but highly qualified professional staff including Jamaican counterparts. The counterpart relationship is key to the transfer of enhanced competence and responsibilities within a period of two years. The national staff will not only have to absorb large quantities of specialized information rapidly, but will also have to use this information in operation and transfer it to peers, subordinates and personnel of other agencies. Thus, the specialists will have to help the counterparts develop and implement projects.

The FPMU's role vis-a-vis other government agencies must be clearly defined to minimize the potential for conflict and to reduce the complexity of its role where its responsibilities cut across different ministries, agencies and sectors. A further requirement is that the FPMU has enough operational autonomy to avoid cumbersome government procedures, but at the same time a high enough degree of accountability to the agencies with which they work to ensure harmonization of operations. Ideally, a senior official of the MOF should be appointed as the counterpart head of the FPMU since he/she will have the political experience and acumen to operate in a decision-making environment where objectives and agendas are not in complete harmony.

In summary, the FPMU must be designed to make rapid communication and decision-making possible, not only within the MOF, but also with other involved government agencies. It must be a streamlined, flexible organization, staffed with a small number of highly qualified personnel, able to respond rapidly to new requirements as they arise and anticipate issues/problems before they arise. Finally, and most important, it must be capable of advising on and assisting in the formulation of fiscal policies, strategies and measures that have major significance for the economy. It must also be able to provide high quality advice to the Minister of Finance in the implementation of policies.

## **A2d. Fair Trade Competition Act**

Jamaica's Fair Trade Competition Act was passed in March 1993. The Act is an integral part of the reform package, and its purpose is to enhance the competitive environment by restricting monopolistic behavior as the economy grows, prevent other restrictive business practices, help protect consumers and help promote private investment and exports. The keys to the success of this Act will be improved prudential regulations and their impartial application, coupled with the promotion of the market economy and the development of business competition by the Fair Trading Commission. At the beginning, the initial operations of the Commission will focus on investigatory activities and the provision of information to consumers.

The concept of the Fair Trade Competition Act, or anti-trust act, is positive, nevertheless it can be misused through the application of pressure or coercion for political ends, a use that could work against the private sector. Many developing economies have established anti-trust laws which are limited in scope, but call for strict enforcement. Given the stage of evolution of the market economy in Jamaica and its dynamics, the Fair Trading Commission should be simple in its organization, independent in its operation, tolerant in allowing "breathing space" for the market economy and competition to develop, and should assume a role of promoting the market economy by educating the consumer, and by fostering transparency and widespread availability of market information. Independence, transparency and fairness in application of regulations will help generate more investor interest in Jamaica's private sector.

Effective implementation of the Act will require that the following elements be put in place:

- A staff which is highly professional, independent, knowledgeable, technically strong, properly trained and remunerated.
- A proper "information system," including a manual of common accounts for accounting and reporting requirements, and computer hardware and software.
- In-depth training in the basic functions of business in a market-driven economy, including business law, marketing, financial management and the capital structure of the firm - for both technical staff and inspectors.
- The development of an outreach capability to allow the Commission to promote domestic competition and therefrom the private sector's competitiveness in overseas markets.

To give the Commission necessary autonomy and independence to function fairly and effectively, the duration of appointment of its members should be both lengthened and staggered. A longer, staggered duration of appointment would help preserve the continuity and expertise of the Commission.

Another area in which the autonomy and independence of the Commission should be strengthened is the criteria for appointment and removal of members. Since a government is in power for up to 5 years, the length of appointments could be staggered over a three to seven year-long period. The appointment powers given the Minister of Production, Commerce and Development could be strengthened by establishing experience and technical criteria which potential Commission members would have to meet. Removal powers should be made less discretionary in the sense that causes for removal must be stricter than those outlined in the Act. These steps would help insure the independence of the Commission, give it the necessary continuity and insulate it from possible political manipulation.

The Commission's mandate should be expanded from its present regulatory objective to one which also openly promotes the development of competition as a key element of the transition to a market economy and as a part of Jamaica's economic growth strategy. A policy of competition can be expanded beyond the general goals of promoting more competition, protecting the consumer and promoting private investment and exports. Competition can be seen in a variety of dimensions:

- Increased domestic competition as a means of learning how to become competitive in foreign markets and how to meet import competition - both key concerns of developing countries.
- A policy in support of competition that recognizes that businesses create employment and which helps ensure a competitive environment, offering incentives for the creation and entry of smaller, more efficient enterprises as an important means of employment generation.
- A policy that also recognizes the benefits of size, to be able to exploit economies of scale where the benefits to the economy outweigh the reduction in the number of competing firms, and to allow business to create units which are of sufficient size and economic strength to enter new markets.
- A policy which can attract the desired kind of investment to the country tailored to the stage of development and absorptive capacity of the economy, e.g., joint venture, sectoral, direct investment, majority foreign ownership, multinational, etc.

#### **B. Activities Undertaken by USAID**

USAID's policy related activities carried out under EDIP entailed the following:

- **Fiscal Policy Monitoring Unit.** A study to develop a Fiscal Policy Monitoring Unit for the Ministry of Finance with an associated action plan, the development of terms of reference and position descriptions for expatriate staff and a strategic management workshop: \$148,000.
- **Fair Trade Competition Act.** Assistance in the preparation of this legislation, preparation of instructions for associated regulations, and public

relations/educational services regarding the Act and establishment of a Fair Trade Commission: \$138,000.

- **Related Activities.** Computer system and associated training for Ministry of Finance; short-term training for two JSE staff members at SEC conference: \$29,000.

To date, USAID under EDIP has been only limitedly involved in key policy areas. The efforts have been cost-effective in initiating technical assistance which is of crucial importance for the success of Jamaica's economic reform process. USAID is prepared to expand its assistance. In a Memorandum of Understanding between the GOJ, USAID and UNDP, USAID plans to provide the bulk of the technical assistance (long and short-term specialists, training, equipment, travel) as support to make the FPMU operational. This assistance would amount to approximately \$1 million.

USAID has also advised the GOJ that it is willing to help in the establishment and operation of a Securities Commission (once the corresponding Act is passed) and in the modernization of the JSE and the eventual expansion of its activities. Modernization of the JSE would also involve a study of how to upgrade and modernize its operations.

### **C. Conclusions and Recommendations**

Jamaica's economic liberalization process has proceeded to the stage where the main challenge lies in policy implementation and economic management across a broad spectrum of activities. Many of Jamaica's public sector institutions will require strengthening via appropriate technical assistance so that they may become strong, effectively managed institutions, capable of successfully implementing economic reforms.

#### **C1. Financial Sector Reform**

Much of the basic legislation governing the sector has already been enacted or is close to enactment. The objective of the legislation is to correct deficiencies in the banking system and in the securities market, to provide for regulation more in line with international standards for the industry, to increase competition, and overall to improve the investment environment by bringing about more stable, responsive and competitive financial markets.

The Securities Market Act, with the attendant modernization of the JSE and the creation of a securities commission, meets the urgent need to provide a modern regulatory framework and a modern stock exchange capable of responding to increased investment activity and a growing need for capital to finance new investment opportunities. The Banking Act of 1992 and its companion, the Financial Institutions Act, bring a needed modern regulatory framework for the banking system in order to decrease its riskiness, to improve banks' accountability and to offer a higher level of depositor and investor protection. Extension of the Banking Act or the Financial Institutions Act to those quasi-bank and other financial institutions would be appropriate through reasonable regulation and supervision, and would strengthen their competitive positions. Government financial

**institutions also require regulation and a focusing of their roles, so that they will compete fairly with private sector financial institutions.**

**A common characteristic of the legislation is its classic nature: generality coupled with a largely static definition of organizations, and subject to discretionary intervention on the part of political authorities through entities which should be technical and independent in nature, such as the various commissions and the central bank. Little, if any, emphasis is given to the positive role these organizations should play. For example, they may promote a broader access to capital markets, the development of new, appropriately adapted financial instruments and modalities to reach a wider segment of citizens and mobilize savings as a means of broadening and deepening the country's capital base.**

**Thus there seems to be a favorable political environment for enacting laws. This could auger well for introducing amendments to the laws as the financial sector evolves, or through flexibility in the design and interpretation of the regulations. Flexibility is important in Jamaica in order not to strangle the development of the private sector with uncompromising regulations.**

**To carry out effective policy implementation with the appropriate degree of flexibility requires reliable, technically strong, autonomous regulatory institutions. Such institutions, responsible for implementing financial policy reforms, and which are capable of both looking forward and responding to the dynamics of this sector's development by setting the appropriate, flexible, fair regulatory environment and by actively promoting the growth of the components of the sector, will favor the increase in private investment and its concomitant effects, employment creation, foreign exchange generation and small investor and depositor protection.**

## **C2. Government Sector Reform**

**The GOJ is addressing the major weaknesses of government: the lack of financial discipline, accountability, transparency, management institutionalization and institutional capabilities. As a complement to public administration reform, the passage of the Amendment of the Financial Administration and Audit Act is an important first step in instilling accountability and sound financial management in the government, and in focusing individual government agency attention on planning, operations and expenditures.**

**The overhaul of the tax system and its simplification has produced positive results, both in terms of revenue collection and in system responsiveness to economic growth and inflation. An important component of the tax system, the Customs and Excise Department, needs a fundamental overhaul especially with respect to system modernization and personnel.**

**The matter of the GOJ ability to prepare and manage its fiscal policy effectively is being addressed by the government, with the support of technical assistance from USAID, by its intention to create a Fiscal Policy Management Unit in the very near future. The importance of this unit can not be overstated, since it will be one of the pillars of formulation and implementation of fiscal policy, and macroeconomic policy in general.**



The passage of the Fair Trade Competition Act is a positive step, and if the Fair Trading Commission produces improved prudential regulations which are applied impartially and actively promotes the development of business competition, this Act should enhance the competitive environment and thereby help promote increased private investment and exports (foreign exchange).

While the correct steps are being made in the right direction, there are still deficiencies to be corrected and urgent need for technical assistance to ensure that the various concerned government agencies will have the capacity to implement present and future policies effectively. In summary, the deficiencies reside in the areas of institutional capabilities, system streamlining and modernization, and personnel upgrading.

#### **D. Recommendations**

USAID/Kingston has been involved in key areas of policy reform and its efforts, while small in scale, have been both cost-effective and important in starting a sound, future policy implementation process. The past efforts of USAID should continue under certain conditions:

- Planned technical assistance to the FPMU should require, at the earliest stage, the definition of an agenda of technically sound projects with clearly stated responsibilities, timetables and budgets. This assistance is required so that the FPMU may be capable of advising and assisting the MOF to formulate and implement sound fiscal policies, strategies and measures important for the development and effective management of the economy. Additionally an integral component of the Government's public administration reform efforts is to rationalize the MOF's organization and budgeting activities, by giving it the technical and analytical capability to support and back-up fiscal analysis and the establishment of sound fiscal targets, a national budget based on these targets, and to implement the national budget. This institutional strengthening will put the MOF at the center of fiscal policy formulation and implementation.
- Continued technical assistance in the establishment and operation of a Fair Trade Competition Commission conditioned on the correction of certain deficiencies found within the Act, such as the aforementioned strengthening of member appointment and removal criteria, and the expansion of its mandate to include the promotion of the development of competition along more varied and wider dimensions. The criteria for the appointment of members should be explicit and strict, based on experience and technical requirements. Removal criteria should be strict and much less discretionary than outlined in the Act. The duration of member appointment should be both lengthened and staggered to help ensure the Commission's independence and continuity, and to preserve its expertise. To promote the development of competition, the Commission's policy mandate should be multidimensional and proactive, ranging from offering incentives for the creation of smaller, more efficient firms as a means of generating employment to formulating policies which will attract the desired kinds of investment to Jamaica, as the economy's development proceeds and its absorptive capacity for new and different types of investment grows.

- **USAID has committed itself to help the GOJ strengthen the securities market through the establishment and operation of the Securities Commission, once the enabling legislation is enacted, and the strengthening and modernization of the JSE. The securities market subsector is the most vibrant of the entire financial sector and holds a high level of potential for the generation of new private investment, and consequently, employment and foreign exchange. This assistance is described in the Action Plan section of the report.**

## **E. National Action Plan**

### **E1. Overview**

The National Action Plan constitutes an effort by USAID to develop a forum for economic policy reform. USAID/Kingston, through EDIP, entered into Cooperative Agreement #532-0135-A-00-2080-00 with the PSOJ in September 1992. The purpose of USAID's agreement with the PSOJ was "...to support the GOJ and the PSOJ with the objective of enhancing the overall climate for domestic and foreign investment, particularly by identifying and systematically eliminating constraints to such investments." To accomplish this, the agreement provides support to the National Action Plan (NAP).

As of February 28, 1993, USAID shows LOP financing of \$340,000 (a reduction of \$233,000 from the Cooperative Agreement), with obligations and commitments of \$240,000 and disbursements of \$0.00. PSOJ records show \$27,280 in disbursements as of March 1993.

According to an internal USAID review of donor activities, few other donors are assisting to improve the investment climate. Aside from EDIP's PSOJ/NAP sub-project, the IDB is about to pay the last tranche (\$20 million) of a \$75 million sector loan with corresponding policy conditions upon trade and export promotion, financial management, environmental protection, customs reform and macro-economic policies. The UNDP has a small project (\$290,000) to help establish the Fiscal Policy Monitoring Unit, within the Ministry of Finance, which will carry out fiscal analysis, develop policy options, and improve fiscal management.

Although located at the PSOJ's offices, NAP is a separate operation to which PSOJ provides USAID-approved accounting and administrative services. Given segregation of management functions, the PSOJ and NAP are discussed separately.

### **E2. PSOJ Purpose and Organization**

Historically, a series of associations and organizations have represented the Jamaican private sector. At one time, there was only the Chamber of Commerce, but because the Chamber emphasized commerce, the manufacturers formed an association; because the manufacturers' association focused on inputs, the exporters formed their own association;

because nobody really paid attention to the small business sector, small businesses created a service association; because... etc. Given the proliferation of constituent specific associations, there was a perceived need for an organization that could represent the private sector with one voice, particularly during the period of a socialist government. So in 1976, the Private Sector Organization of Jamaica (PSOJ) was formed.

The PSOJ provides a forum through which the private sector speaks with one voice, particularly on macroeconomic issues. It is essentially an advocacy organization, with in-house research and analysis capability to support its lobbying activity. Historically, PSOJ has steered away from most sectoral concerns unless there was a macro level issue. Within PSOJ though, there is a growing recognition that PSOJ, to stay relevant, may need to become involved in more sector-specific or micro level issues.

The members elect a governing Council, which sets PSOJ's policies and elects an Executive Committee to provide guidance on and identify critical economic issues the organization will address. An Executive Director is responsible for day-to-day management.

The Executive Director manages approximately 20 full-time employees, of which about eight are professionals, including a full-time accountant. PSOJ maintains four divisions: Economic Research & Business Development, Finance & Membership, Communications, and Human Resource Development. There are four working sub-committees: Economic Policy, National Security, Environment, and Health. Although the PSOJ does not have a communications/public awareness plan, it regularly takes its "message" to the general public through a variety of forums—weekly radio program, weekly "Gleaner" column, quarterly newsletters, annual reports, and numerous speeches.

The PSOJ has approximately 402 members, including individuals (76), companies (297), and associations (29). Corporate memberships are divided among large, medium, and small companies, roughly numbering 25; 50 to 60; and 210 to 220, respectively. Company designation is based loosely on number of employees and other criteria. PSOJ maintains flexible membership requirements so as to have the means to encourage participation by smaller companies. Membership dues vary according to the same criteria and range from J\$125,000 down to less than J\$5,000. Individuals and small companies can join for a flat fee of J\$750.

Some members are dissatisfied with PSOJ as a "big boys" club, dominated by a few corporate members, and losing touch with its rank and file. While not looking as closely at PSOJ as NAP, PSOJ management appears to have a sincere interest in attracting a diverse membership. PSOJ may simply need to renew efforts to reach out to its members for their input. PSOJ is respected for its analytical/research capabilities, which exceed that of most other private sector associations or organizations.

### **E3. NAP's Purpose and Organization**

The idea of the PSOJ's immediate past president, the National Action Plan brings the public and private sectors together to enhance the overall climate for domestic and foreign private investment by developing, essentially, what will become a strategic economic plan for the country that identifies and systematically works to eliminate constraints to investment. NAP's organization consists of a Steering Committee and a Secretariat. It is notable that Steering Committee members include the Minister of Finance (chairman); Minister of Production, Manufacturing & Commerce; the USAID director; President and immediate past president of the PSOJ; plus one or two from the opposition party, as yet not named. These members make NAP a potentially powerful organization.

The Steering Committee, which intends to meet once a month, directs NAP's Secretariat. The Secretariat has two of its professional positions staffed. The Executive Director is seconded from a private sector company where he is Director, Government Restructuring. An economist, hired with USAID funds, is a recent Ph.D. graduate. A public sector agency, supposedly the Ministry of Finance, will second a professional to NAP. This person has been identified but has not yet started work. NAP will also hire additional support staff.

Both the Steering Committee and the Secretariat were formed recently in January 1993. On January 20, NAP's Steering Committee held its first meeting. At its second meeting, in March, the Committee decided to hold a workshop at which it will establish an action agenda, based on the Secretariat's working paper of critical economic success factors. (A review of the initial draft of the working papers by the evaluation team determined that the process was in a very early stage of development.)

While NAP strives to pull together a national economic plan, an overall strategic plan does not exist for NAP. It is expected that general discussion among Committee members will lead to a consensus regarding the relative importance of a given initiative and its positioning on the agenda. Where consensus is not forthcoming, it is anticipated that the Committee will ask the Secretariat to analyze the issue and make recommendations to the Committee. It is unclear, however, how this will necessarily lead to resolution.

Some uncertainty exists concerning how the process might then work. One scenario has the Secretariat developing position papers via task forces chaired by either a member of the Secretariat or an outside, hired consultant. The task force would be composed of those affected in the private sector and those in the public sector who would be responsible for establishing/implementing/regulating the initiative. It is at the task force level where NAP would seek wider private sector participation. An alternative scenario has the Secretariat developing macro level position papers, possibly with technical assistance from outside, but no task force. Task forces would address agenda items that involve change at the operational level—e.g., export or import procedures, business registration—rather than at the macro or policy level. In addition, the Secretariat can foresee the need for it to organize and facilitate

training, education, or awareness building efforts to address specific private sector improvements, e.g., total quality management, management training, or re-tooling.

USAID has provided funds to NAP that may be used to hire outside consultants when necessary to assist the Secretariat and task forces in completing their work. The Secretariat has the responsibility to draw up the terms of reference for these engagements. As a member of the Steering Committee, USAID is in a position to approve the terms of reference and, beyond that, the Cooperative Agreement explicitly gives USAID the responsibility to approve them.

#### **E4. NAP Activities under EDIP**

The Cooperative Agreement provides NAP with \$283,000 for administration and program development and \$290,000 for development and prioritization of action oriented initiatives based on: 1) potential impact on investment constraints and 2) practicality of the intervention (e.g., cost effectiveness). Since signing the Cooperative Agreement, NAP has acquired a partial staff (including hiring a USAID-funded Ph.D. economist), developed a working paper concerning critical success factors, and held two official meetings. Office space is provided by PSOJ. As yet no short-term technical assistance has been engaged.

#### **E5. NAP's Impact**

NAP has not yet created any impact on the investment climate or increased investments because it is just now initiating activities under the Cooperative Agreement. While it is too early to consider NAP's contribution to enhancing the overall investment climate, it is an opportune time to consider the measures that might be used to evaluate NAP's effectiveness. Assuming NAP's Committee selects the right initiatives, the key measure of impact might simply be NAP's ability to achieve its agenda, e.g., formulation of a policy position that leads to enactment of a law or the drafting of a law or regulation that is enacted.

#### **E6. Self-sustainability**

PSOJ is self-sustaining. Nearly two-thirds of its \$6M budget is provided through member dues. The remaining one-third comes from PSOJ investments and revenue earning activities, such as, quarterly luncheons, ad hoc functions, and PSOJ diary sales. NAP has received substantial funding from USAID, with the private and public sectors seconding staff. If successful, NAP's activities will continue throughout the economic transformation process.<sup>1</sup> Therefore, NAP will require financial support beyond that provided over the next year through EDIP. Public and private sector interest in funding NAP beyond USAID, though, will largely depend on NAP's near-term effectiveness.

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<sup>1</sup>If successful, NAP will have laid the foundation for the successful use of ad hoc, mixed economic advisory groups to address new economic reforms or revisit existing policy without the necessity of a formal NAP committee.

## **E7. Conclusions**

In the current transformation of the Jamaican economic environment, there is a potentially very important role for NAP to play in furthering and implementing an economic reform agenda. However, there are a few things to watch for:

- Nearly seven months after signing the co-op agreement, NAP's Steering Committee has not as yet established its action agenda of critical success factors. Whatever the reasons, NAP is off to a slow start.
- NAP could face a perception problem in part because its Steering Committee is relatively small; in part because PSOJ, which has its own perception problem, has two participants on the Committee; and in part because the opposition, although supportive, has not yet actively participated.
- Despite the potential perception problem, the Committee is "power packed" and its size is more conducive to the timely completion of items on its agenda.
- NAP's staff are largely untested in their new roles.
- NAP must be very successful to hold the attention of Ministers and very effective to achieve credibility from different parties.

With respect to the PSOJ, it has the capacity to take on a larger implementing agency role under an amended EDIP. However, warranted or not, it is perceived as representing the private sector elite.

## **E8. Recommendations**

While there is a definite role for NAP in the current economic transformation, NAP must move quickly and professionally if it is to be seen as a worthwhile initiative. The recommendations offer suggestions as to how to move NAP forward:

- The proposed workshop should be used to put NAP on track. The purpose of the workshop is to prioritize the critical success factors. This workshop should also be used to establish a plan of action for the most important items on the list. The purpose is to put NAP on a firm, progressive, and guided footing. These action plans might address:
  - At what level will the action take place: NAP's Secretariat or task force?
  - Who should be asked to assist the Secretariat or participate on a task force?

- Among those working with the Secretariat or participating on a task force, who will be ultimately responsible for the output and keeping the process on schedule?
  - Benchmarks for determining progress, e.g., dates by which TORs should be prepared, date by which research activities should start, intermediate milestones, date by which action should be completed, and what will constitute completion, e.g., proposed legislation or regulations, new operating procedures, policy position paper.
  - How can the process be legitimized vis-a-vis those who may have the responsibility in the public sector for carrying out NAP's recommendations and those in the private sector who may be affected by those recommendations? This might include adequate participation by those who are likely to be affected; use of expatriate consultants (Identification of expatriate advisors can be facilitated by USAID); use of public debates; and objective research.
- USAID should support the use of NAP funds to engage a facilitator for the workshop in order to achieve the above.
  - USAID should support the use of NAP funds to engage a law firm(s) for the purpose of drafting suggested laws or regulations, where these are to be the expected output of NAP's action.
  - Two criteria now guide the Steering Committee in selecting critical success factors, potential impact of intervention on investment and the practicality of the intervention. The Steering Committee should also consider the likely time-frame for accomplishing the task. Specifically, the Committee should look for near-term interventions that offer the possibility of early wins. Such accomplishments will garner increased support for the process.
  - The Steering Committee should look to develop a communications strategy that keeps the public informed as to its agenda, timing for completion of agenda items, progress, obstacles, and successes/failures. This will help build consensus.
  - To move the Secretariat rapidly up the experience curve, outside technical assistance should be provided whenever feasible and should work closely with the Secretariat. In addition, the relationship with PSOJ's in-house economic research unit should be strengthened, by formalizing it as a resource for NAP.
  - NAP needs to make progress quickly. If NAP has not achieved a degree of success against the agenda it has established, then USAID should not continue funding beyond March 1994, the end of the present Cooperative Agreement. If

611

**NAP does demonstrate success at establishing and completing an agenda, then USAID should continue financial support during the amended EDIP project period for the following reasons:**

- **There is a good and comfortable fit between NAP's objectives and EDIP's goals and the overall recommendations the evaluation team have made concerning the future orientation of the EDIP project.**
- **Few other donor agencies appear to be working in a microeconomic way to improve the policy environment. It is not adequate to merely condition macroeconomic policy changes; the true task is to analyze the issues at a micro-level and make direct practical changes that will enhance investment and economic growth.**
- **No other donor besides USAID has worked to create such a unique mixed entity to work on these issues. As such, USAID is providing a needed service.**
- **USAID has some experience in addressing changes to the enabling environment.**
- **Although it could be argued that the private and public sectors should pick up the cost of NAP if it is successful; USAID has actually endowed such research institutions in other countries and, if NAP proves successful, this might be considered in the future.**
- **By the second year, NAP will require little USAID management oversight.**

**USAID may need to make its extension decision by January 1994 to include NAP in an amended EDIP. PSOJ should be made aware that future funding depends on performance.**

- **With respect to PSOJ as a possible implementing agency under an amended EDIP, it is not recommended that USAID use PSOJ in this capacity beyond its current responsibilities for NAP.**



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**SECTION IV  
PRIVATIZATION AND EMPLOYEE SHARE OWNERSHIP**

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**A. National Investment Bank of Jamaica (NIBJ)**

**A1. Organizational Description**

Privatization has been on-going in Jamaica since 1981; therefore, a considerable history exists. Overall, with the privatization of more than 180 properties, including several large enterprises, the program in Jamaica rates as a good example of this activity for the developing world. It has been said that the previous government stressed financial proceeds from the process without due regard for achievement of additional efficiency. The new government took over in March 1989, with a policy to continue privatization in an organized way.

In December 1990, the GOJ centralized management of the privatization program under the Office of the Prime Minister, with NIBJ as the executing agency. Despite this centralization, other organizations, the Urban Development Corporation and National Hotel and Properties, are responsible respectively for land and hotel privatization. No one knows exactly how many more government properties or operations are left to privatize, but the NIBJ currently has nearly 70 companies and properties planned for eventual divestiture.

NIBJ's Privatization Division employs a small staff of 12 professionals and 15 support personnel. The organization has two divisions, the Privatization Division and the Investment Division. The latter's main activity, which previously was to undertake investment on behalf of the government, is limited, as the government's emphasis is strongly on privatization. The key professionals of NIBJ are assigned to work with individual companies or government entities slated for privatization.

NIBJ handles most of the activities required for the small and medium entities, while the larger, more complicated transactions are handled by special divestment committees led by the sectoral ministries. In those cases, NIBJ is represented on the divestment committee; however, it is not always clear who has the ultimate authority for the privatization and it appears that decision-making is slowed by this committee arrangement.

Further leadership problems were detected at the NIBJ itself. Mr. Peter Bunting, the president, recently resigned to run for Parliament. This leaves NIBJ without qualified leadership able to deal at the highest levels of government and the high-level technical skills required to strategize and negotiate the sale of companies. Based on interviews with NIBJ staff, one has the impression that strategies and decisions are being reached after the prolonged process of committee meetings with no in-house business strategist cutting through the obstacles and accelerating the process. It also appears that NIBJ staff is relying to much upon Price Waterhouse, the primary program advisors. There also appear to be instances,

such as for Air Jamaica and the sugar estates, for which expatriate technical assistance needs to be brought in to assist NIBJ and the divestment committees to define the appropriate divestiture strategy.

Privatization is viewed by other donors as a key element in the economic reform process and, as a result, privatization is included in the conditionality of the IMF, World Bank and IDB loan programs. Thus, there is considerable pressure to continue the program and to maintain its momentum. According to its agreement with the IMF, the proceeds of the transactions are transferred to the general fund for use in reducing the outstanding debt of the government.

The privatization process follows a standardized order:

- Cabinet approves the company for privatization; this is usually done for a group of companies, but Cabinet has on occasion added individual companies to the list for privatization.
- NIBJ or a consultant collects data on the company, and drafts an initial profile of the company.
- NIBJ or a consultant prepares a feasibility study to determine whether the company has viability as a going concern and proposes a divestiture strategy based on the financial condition of the company, its potential and its scale.
- A formal profile of the company is prepared by the consultant.
- The Board of NIBJ considers the divestiture strategy and, if satisfactory, provides approval.
- Advertising is placed in the local newspapers for 4-6 weeks, depending upon the scale and condition of the company or asset.
- Offers are received, based on a definite closing time for offers.
- Offers are reviewed by the Divestment Committee, which is composed of staff from the NIBJ and the relevant ministry. Offers are reviewed based upon criteria such as employment creation, community outreach, etc. These conditions are not included in the sales agreement and, if they were, probably would be unenforceable (unless leases are used). Nevertheless they do identify investments and employment effects that should take place after privatization, and this is important for achieving EDIP goals.
- If the offer is acceptable, direct negotiations begin.

Since March 1990, the privatization transactions concluded are categorized as follows:

Lease of assets	3
Asset sale	6
Share sale	6
<u>Sale of rights</u>	1
Total	16

Exhibit IV-1, on the following page, provides the names of the companies privatized during the project period. Total proceeds of US\$75 million were generated, and lease proceeds amount to about US\$163,000 annually.

While the process is moving slowly, we nevertheless find that it is moving at about the same pace as USAID-supported privatization projects in Malawi, Honduras, Tunisia and Sri Lanka. Further, NIBJ's program is tightly conditioned by the IMF, World Bank and the IDB, and there are conditions regarding the proceeds of the program enforced by the IMF. We see that this process will continue to be rather slow moving, despite the government's agreement to finish the list of 57 companies by the end of 1994. The program is now working on some of its most difficult challenges: the sugar estates (trying to sell sugar mills in a glutted, largely infeasible international market); banana estates (trying to sell these plantations based upon the negotiations with the EC regarding quotas); Air Jamaica (where the present approach to valuation and marketing strategy has the government negotiating from a highly unfavorable position); Railways (whose viability appears questionable); PETROJAM refinery (a relatively large-scale monopoly); Minard Estates (which involves questions of how to protect the genetic strains of Jamaica's cattle breeds while privatizing this operation); etc.

Several controversial sales have occurred. The second two tranches of shares sold to Cable & Wireless were hurried sales, as the government needed the hard currency to pay foreign debt obligations. Certainly a percentage of these shares, perhaps as much as 28 percent, should have been sold to the Jamaican public. Also, the remaining 39 percent of the NCBG shares were to have been sold on both the London and Kingston exchanges because the limited local absorptive capacity compared to the relatively large offer size (US\$11 million) and the difficulty in clearing such a large transaction through the Jamaica Stock Exchange. The prospectus was in its thirteenth draft when it was decided at high levels in government that competitive tenders were to be invited in Jamaica, and a private placement with two large institutional investors was negotiated. Questions have been raised about the transparency of this transaction. NIBJ claims that the requirement to carry out the transactions in this manner was caused by a condition of the IMF program to dispose of this shareholding by a specific date; some said the government needed hard currency for debt repayment.

**EXHIBIT IV-1  
EDIP PROJECT  
PRIVATIZATION COMPONENT  
TRANSACTION PROCEEDS  
MARCH 1993**

Company	Date	Method	Proceeds J\$	%	USAID Support	Post-Privati- zation Investment
West Indies Glass Ltd.	1991	Share Sale	400000	4.2%	Yes	Yes
RJR "B" Shares	1991	Share Sale	1500000	1.6%	Yes	No
National Commercial Bank	1992	Share Sale	276960000	29.3%	Yes	Yes
Telecommunications of Jam.	1990	Share Sale	336000000	35.5%	No	Yes
Caribbean Steel Co Ltd.	1992	Share Sale	163350000	17.3%	Yes	Unknown
Caribbean Cement Co. Ltd.	1992	Rights Sale	16964495	1.8%	Yes	Yes
Jamaica Drip Irrigation Ltd.	1992	Share Sale	600000	0.1%	No	Unknown
<b>Total Share Sales</b>			<b>848874495</b>	<b>89.7%</b>		
Agricultural Mech. Servs.	1991	Asset Sale	2000000	0.2%	Yes	Minimal
Negril Cabins	1991	Asset Sale	15000000	1.6%	Yes	Yes
Montpelier/Shettlewood Props.	1991	Asset Sale	18000000	1.9%	No	Yes
Cornwall Dairy Dev. Ltd.	1992	Asset Sale	9493424	1.0%	Yes	Yes, future
Nat. Cassava Prods Inds. Ltd.	1993	Asset Sale	3200000	0.3%	Yes	Yes
Jam. Soya Prods. Inds. Ltd.	1993	Asset Sale	49500000	5.2%	Yes	Yes
<b>Total Asset Sales</b>			<b>97193424</b>	<b>10.3%</b>		
<b>Total Sales</b>			<b>946067919</b>	<b>100.0%</b>		
<b>Leases</b>						
Kingston Dry Dock Ltd.	1991	Lease	360000		Yes	Yes
Negril Royal Palm Reserve	1991	Lease	1000000		Yes	No
Darliston Community Foods	1992	Lease	170000		No	Yes
<b>Annual Total</b>			<b>1530000</b>	<b>69545.45</b>		

Carib Steel, although viewed as successful because as a public offer it was oversubscribed, was also seen as controversial because of the delayed refunds provided to subscribers. In this case, the controversy was partly caused by the subscribers themselves, in that they filed numerous anomalous subscriptions. The NIBJ decided to take more time and remove the anomalous subscriptions and thereby eliminate to the extent possible those controversial aspects, but then there were complaints regarding the slowness in providing refunds. However, the controversy also stems from a woefully inadequate, manually operated Stock Exchange, which causes severe bottlenecks.

One problem for using public offers as a privatization method in Jamaica is that the Jamaica Stock Exchange requires a long time to clear the subscriptions and provide refunds to the subscribers. Further, it has required up to 6 months to deliver the stock certificates. This slow clearing can cause considerable problems in a declining market. Dividends are also greatly delayed and can be received after the share has been traded. In the cases of the RJR and the Carib Steel share sales, they were oversubscribed by 3 times and 5 times respectively. It takes up to 2 weeks for a transaction to clear under normal circumstances. A request has been made to USAID for assistance to the Securities Exchange. An amendment will be required in the Companies Act to create a central depository arrangement to speed clearing. Specific assistance to the Stock Exchange is discussed in Section III and Appendix E of this report. Another problem relating to listing on the Jamaica Stock Exchange is the transfer tax that must be paid. At present, trading is not taxed; however, a company is taxed 7.5 percent of the total value of a new offering.

## **A2. Activities Supported by AID**

USAID has financed a series of activities during this project period to support the privatization process. In fact, USAID has been the key donor for privatization, with the World Bank now supporting some of the regulatory work for the National Water Commission and in the energy sector. The World Bank has also provided some miscellaneous assistance for some of the large-scale privatizations, such as Air Jamaica. USAID has an advantage in providing such funds to the NIBJ because of the aversion of the GOJ to borrowing funds for technical assistance, the long project cycles required to obtain funding, and unavailability of grants funds from the other donors.

Since March 1990, USAID has obligated \$1,269,057 in grant funds for privatization, of which \$627,113 were spent as of February 28, 1993. These obligations amount to just over 21 percent of the total EDIP project funding. USAID provides funds to NIBJ on a reimbursement basis, and actual expenditures are probably much higher but their accounting is delayed by NIBJ's invoicing.

The \$627,113 has been spent for the following purposes:

- The provision of professional services: divestiture strategy advice, accounting and auditing; going concern, equipment and machinery and real estate valuations; legal advice, including incorporations of companies where required; feasibility studies

(contracting out, employee buyouts, concessions); and advertising companies for sale.

- Useful support activities such as: Professor Carl Stone's assessment of the impact of privatization upon the general public, workers and management; Stone's evaluation of municipal markets and garbage collection; an investment promotion conference (in conjunction with MIGA); privatization training for NIBJ staff in Washington.
- An assessment of NIBJ's administrative systems and procedures.

Services to support the Fair Competition Act were contracted through NIBJ because no other group existed under the EDIP that could handle these activities as well. Both public relations services and drafting of the legislation by a local law firm were supported in this manner.

The Leeds case study on the National Commercial Bank notes that the problem for the GOJ in terms of technical assistance support has been "how to benefit from the financial resources and technical know-how without succumbing to unpopular external controls." There was a consensus in both the government and USAID that if the aid agency was going to play an effective role, it must keep a low profile and be prepared to eschew any public credit for its role. It appears that this formula resulted in mutual satisfaction." In practice, NIBJ has made this a workable arrangement by using primarily local technical assistance for now-routine preparatory activities and expatriate technical assistance for specialized requirements, e.g. the Sangster Airport privatization strategy.

The NIBJ manages the process of procuring technical services as follows:

- As the need for technical assistance is identified, a terms of reference is developed either by NIBJ staff or Price Waterhouse, NIBJ's primary advisor
- USAID approves the Terms of Reference
- NIBJ advertises in local newspapers for 1 month
- NIBJ evaluates the proposals received, a process that requires about 3 weeks
- NIBJ selects the consultant and communicates selection to USAID along with a draft contract containing a payment schedule
- USAID approves and the consultant begins work
- NIBJ pays the consultant according to the payment schedule and submits vouchers to USAID for reimbursement.

To simplify the procedures, NIBJ moved last year to a "panel contract," which is similar to an IQC. Five such contracts were let on a competitive basis, each for a 6-month or one-year period, for surveying, legal, accounting, and real estate valuation services. In the case of a contract awarded to Price Waterhouse, USAID granted a sole source contract because that firm was deemed "to have special capabilities that no other Jamaican firm possessed."

All contracts are between the NIBJ and the professional firms. The firms holding these contracts and their project activities are:

<u>Contractor</u>	<u>Activity</u>
Price Waterhouse	Broad strategic advice; going concern valuations
KPMG Peat Marwick	Preparation of sales documentation; company profiles
Dunn Cox & Orrett	Legal advice and documentation
Easton Douglas & Co	Land and valuation surveying
Baird & Henderson	Land and valuation surveying

The contractual arrangements are as follows:

	<u>Maximum Fees</u>	<u>Max. Expenses</u>	<u>Period</u>
Price Waterhouse	US\$100,000	--	2/1/92-1/31/93
KPMG Peat Marwick	J\$700,000	J\$70,000	1/4/92-9/30/92
Dunn Cox & Orrett	J\$1,000,000	J\$100,000	6/10/92-12/9/92
Easton Douglas & Co	J\$450,000	J\$45,000	7/13/92-1/12/93
Baird & Henderson	J\$300,000	J\$30,000	7/1/92-12/31/92

Once the panel contracts were executed, individual tasks were not completed. In our interview with the Chairman of the NIBJ, he suggested that additional firms should be allowed to participate, as this would enable further competition on individual task orders or assignments. According to him, USAID suggested that more contracts should not be executed because funds were limited; however, this effectively precluded competition, except for land surveying and valuation services.

Interviews with the five companies holding contracts revealed that the technical capabilities of the firms were quite high in most cases. However, there is a definite requirement under the project amendment to broaden these panel contracts. Our overall impression is that the current arrangement, which was set up as the result of competitive bidding, does not combine competitive bidding on individual tasks with speed of execution. Our recommendation is that at least three panel contracts should be established for each technical service area. This will allow NIBJ to request bids much like the IQC arrangement that USAID widely uses to procure consulting services. In each instance the bidders would provide a complete statement on the work to be done, who will do the work and the budget for the work. Resumes would be attached of the persons proposed to do the work. NIBJ would evaluate these bids and forward them, along with the rationale for selecting a particular bidder, to USAID. Once the work is completed, the deliverable should be forwarded to USAID for filing with the contracting materials. This will give USAID a proper paper trail for monitoring the activities under this project component. With regard to

the general advisory services now provided by Price Waterhouse, it would not be a bad idea to have a second firm under panel contract for such services, as it would provide NIBJ with the opportunity for obtaining a "second opinion."

We believe that there is another reason for having additional professional firms involved. Expanding the number of firms will build local technical expertise that will support overall capital market expansion, as some of the activities are the same as those required for the preparation of an initial public offer of shares.

### **A3. Impact by Project Objective**

To evaluate project impact, we interviewed NIBJ staff concerning the businesses that were privatized and visited three companies privatized early in the project period where we felt there might be measurable post-privatization economic impact. We also received a study measuring economic impact and one measuring social impact. The timing and the type of transaction clearly limits these examples. It is readily perceivable, for example, that the primary impact of transactions involving the divestiture of a minority shareholding may create little or no change in the manner in which businesses operate. In addition, some effects due to restructuring (reduction of personnel, elimination of product lines, etc.) of the company by the new owners may initially create negative economic impacts. However, it is precisely these effects that privatization hopes to achieve: the company usually must be restructured so that it can grow again; unless companies can grow, the economy cannot expand. Finally, with the exception of commitments to implement a business development plan by a prospective buyer as discussed above, economic impact from privatization is difficult to project.

In Appendix D of this report is a complete list of the companies that have been privatized during the project period as well as those that are in process. A few highlights of the economic impacts identified as a result of privatization transactions during this project period are as follows:

<b>Jamaica Fisheries Complex</b>	The facility was abandoned and heavily vandalized. Although it required 5 years to privatize, it is now being operated on a daily basis to process and market fish caught by the fleet of the owner and other fishermen.
<b>West Indies Glass Ltd.</b>	The sale of the government shares to two private sector shareholders paved the way for bank financing to overhaul the furnace of the glass manufacturing plant.
<b>Kingston Dry Dock Ltd.</b>	This facility had been idled and damaged by fire, but as a result of its privatization, it is now repairing fishing and Coast Guard boats. Seventeen employees work at the dry dock.



- Negril Cabins** These cabins were underutilized prior to privatization, but have now been extensively refurbished by the new owners, who are planning to expand the facility.
- Montpelier/Shettlewood Props.** This 3000-acre, previously idle, tract of land is being developed by a Jamaican-U.S. joint venture to cultivate, pack and ultimately process oranges. Although USAID funds were not used for its privatization, it demonstrates the impact that privatization can have. The first phase of the development, which is now well underway, will involve an investment of US\$18 million and employ 400 workers to clear and plant the orchards. The joint venture is also encouraging smallholders to plant an additional 7000 acres with seedlings provided by the company for free; 2,200 non-company acres are already committed to the project.
- Caribbean Steel Co. Ltd.** The NIBJ divested 51 percent of the total shareholding in this already-listed company. These shares were worth US\$8 million at the time of their divestiture. The offer was oversubscribed by about 5 times; an allocation scheme was utilized to maximize participation by smaller investors.
- Jamaica Soya Prods. Inds. Ltd** The government divested its 60 percent shareholding in this company to a local businessman who will now enter into a joint venture with a U.S. company. This new joint venture will install US\$3.9 million in new equipment to process soy oil, and by doing so will break the present monopoly on cooking oils in the country.

We reviewed a detailed study of three companies that had previously been privatized. NIBJ commissioned the study, using USAID funds, in 1992 of the impact of the privatization, the National Commercial Bank (NCB) Ltd., the Caribbean Cement Company (CCC) Ltd., and Telecommunications of Jamaica (TOJ) Ltd. KPMG carried out the study. None of the companies studied were privatized during this project period, with the exception of the final tranche of TOJ shares. With that exception, all had been privatized at least 4 years: NCBG was privatized in 1986; CCC and TOJ in 1987. The effects are not particularly indicative of the effects of the present privatization activities supported by USAID but, rather, tend to shed further light on the overall impacts created by the privatization program. USAID supported the NCB and CCC privatizations.

Important for this evaluation is whether the privatization achieved the project goals of increased exports or diversified investment. CCC increased its exports sharply after divestiture, however, the net effect upon foreign exchange earnings varied substantially from

year to year because in some years it imported bulk cement for packaging and selling in the domestic market. Over the years since its privatization, however, there were substantial overall positive foreign exchange earnings. TOJ doubled its foreign exchange earnings from international calls in the 4 years after privatization. Of course, the banking operations of NCBG cannot directly create export earnings, but revenues and profits increased substantially, indicating that the bank was positively involved in affecting economic growth. No statistics were developed in the study to determine the effect of NCBG lending operations upon exports.

Regarding the goal of diversified investment, the NCB privatization sold a 44.4 percent shareholding to the general public and 6.6 percent was set aside in an ESOP. No one subscriber could purchase more than 7.5 percent of the shares. The offer was subscribed to by 30,000 individuals, who paid about US\$1.82 million. An allocation system ensured that those subscribers seeking to purchase the least number of shares received the greater proportion of their subscription, while larger investors were allocated a smaller proportion. Appreciation in share value has been large, increasing 677.9 percent in 1991 alone. This increase may have been due to the removal of the 7.5 percent holding limit for individual shareholders. CCC sold 90 percent of all shares to the general public and to an ESOP and, thus, also diversified investment opportunities.

In the TOJ divestiture only 10.9 percent of the shares were sold to the general public and 2.2 percent was set aside in an ESOP. Cable and Wireless took up 79 percent of the shares and the remainder was held by just nine parties, mainly institutional investors. Investment by the company itself increased dramatically after privatization with the conversion to digital switching equipment; installation of fibre optic equipment, card phones, 61,200 new lines and increased transmission and switching capacity. Our interviews revealed that service quality increased dramatically after privatization. Inflation-adjusted revenue increased by 43 percent during 4 years after privatization. This privatization could have had a much greater effect upon project objectives by offering a larger shareholding to the general public.

The NCBG has diversified into agriculture, real estate and tourism since its privatization, and KPMG suggested that this may have been unwise in terms of maximizing returns. One result was that its market share of total loans outstanding was 40.9 percent prior to privatization, but dropped to 35.8 percent by 1990, facing strong competition. NCBG holds 65 percent of the Jamaica Orange Co., whose holdings include the Montpelier-Shettlewood Properties that were described above.

Broader goals, such as employment creation were also addressed. TOJ's employment increased substantially from 2,199 employees in 1986 to 3,736 in 1991. CCC's employment increased marginally by 36 employees.

The KPMG study made other key observations regarding the privatization process:

- **The government continued to hold large, though non-controlling, shareholdings in the companies that tended to influence how the company operated (most of these have subsequently been divested)**
- **The widely-held companies had no means to mobilize shareholders to influence management to respond to shareholder concerns; thus, broadbasing ownership can have its practical limits**
- **Pre-divestment boards of directors were held more or less intact after privatization; thus few overt management changes were evident; nevertheless performance seemed to have improved**
- **The employee shareholding in the three companies was limited: TOJ 2.2 percent; NCB 6.5 percent; and CCC 3.9 percent. These percentages have subsequently reduced to: 2.1 percent; 3.1 percent; 1.1 percent. The conclusion of KPMG was that the employee shareholding should be in an ESOP. The study team considers that the original amounts made available to the employees were very small. In the case of NCB, management effectively controlled 15.3 percent of the voting shares, making it the most powerful block of shareholders**
- **CCC's shares were overpriced and thus undersubscribed; CCC was as of 1987 the largest offer ever attempted and was too large for the Stock Exchange to handle and the capital market to absorb.**
- **Undercapitalization of the companies persisted after privatization**
- **TOJ was the privatization of a monopoly with the franchise to operate, and the ability to set rates to earn at least 17.5 percent on equity.**

**We also received a study of the views of the general public concerning privatization. This study, which was prepared by Professor Carl Stone, was financed by USAID. the study found that widespread public support exists for the privatization program, particularly because, according to the study, of increased efficiency in the provision of services. A review of recent transactions, such as the Telecommunications of Jamaica (1987); Workers Bank (1990); confirmed that to be the case. However, some concern has been raised over the concentration of wealth and transparency in the process. Those persons in favor of privatization generally the upper and middle classes, persons who felt they could participate in the process by buying shares. Those against privatization were the lower classes, most likely because they do not have the financial capacity to participate. These views changed somewhat after the privatization of individual enterprises, as even some persons in the lower classes recognized that enterprises were better managed by private owners than previously.**

B

#### **A4. Self-Sustainability**

The concept that the privatization process can be a self-sustaining activity was explored. The basic obstacle to this is the GOJ's agreement with the IMF that, according to the NIBJ Chairman, all proceeds are to be remitted to the General Fund for the reduction of government debt. It would appear that the NIBJ has no source of funding, particularly in the form of a grant, to pay for the technical assistance required by this component.

#### **A5. Measurement for Success**

We would recommend that the following measures for the USAID MIS system:

- Number of transactions by type (share sale, asset sale, lease, other)
- Proceeds
- Exports levels in the three years prior to privatization compared to the years after privatization
- New investment after privatization
- Employment effects of privatization

The last three indicators can be collected by company and reported to USAID by NIBJ staff. This should be a condition set forth in a Cooperative Agreement for continued funding. The indicators should be collected at least one year after the transaction has transpired.

#### **A6. Findings and Recommendations**

- NIBJ's Privatization Division functions with a small staff, 12 professionals and 15 support staff, who provide technical input and contract for professional services to implement the privatization program: divestiture strategy advice; accounting and auditing; going concern, equipment and machinery and real estate valuations; legal advice, including incorporation of new companies; feasibility studies (of contracting out, employee buyouts, concessions); and advertising of companies for sale.
- While the overall privatization process is slow, NIBJ is moving at about the same pace as USAID-supported projects in Malawi; Honduras; Tunisia and Sri Lanka. Further, NIBJ's program is tightly conditioned by the IMF and the World Bank and to a lesser extent by IDB and USAID. It is unlikely that USAID can affect the speed of the process much; however, the joint conditionality of the IMF and World Bank will compel the program to move forward. Nevertheless, there is no way for NIBJ to achieve the IMF goals of finishing the process by the end of 1994. The process could continue for another 5 years. The program is now working on some of its most difficult privatizations: Air Jamaica; sugar estates; banana estates; NWC; PSC; Railways; Minard Estates (cattle husbandry); PETROJAM refinery; etc.

- **NIBJ is functioning responsibly and quite competently inasmuch as the provision of technical inputs is concerned. NIBJ cannot itself compel the process to move more quickly primarily because most divestitures are organized around Divestment Committees which are cumbersome and bring to focus many political considerations. The process has slowed further under the present government because the Prime Minister uses a consensus building approach as compared to his predecessor who pursued a more decisive, "fast tracking" approach.**
- **The lack of leadership at NIBJ with the resignation of its president, Peter Bunting, presently poses a problem; the process could be further slowed if his replacement does not possess similar business acumen and the ability to move divestitures strategically.**
- **Local professional services provided under USAID-funded contracts rate from excellent to above average. Some contractors are included in a panel contracting arrangement that was set up on the basis of competitive bidding, which does not achieve the desired results, i.e. fast contracting and competitive bidding for individual task orders. There may be a tendency through this arrangement to rely too much on local consultants when highly specialized technical assistance may be required (e.g. Air Jamaica). However, USAID has insisted on international competition for studies of Sangster Airport and the National Water Commission.**
- **During the 3 years of the project to date, 16 privatization transactions were completed, with USAID assistance utilized for 12 transactions (notable exception: Montpelier/Shettlewood Properties, because it was to become a citrus project). Proceeds from these transactions totalled nearly US\$75 million. Of these, share sales accounted for 90 percent of the proceeds and asset sales accounted for 10 percent. Leases accounted for a minuscule part of proceeds (which is good). We note that approximately 25 privatizations are in-process and many of these are being implemented with USAID-financed technical services.**
- **The share sales have had a strong impact upon capitalization of the stock exchange; and asset sales have resulted in the activation of idle assets creating positive economic benefits (examples: Jamaica Fisheries Complex and Kingston Dry Dock Ltd.). Some of the later share sales of major companies and disposal of minority shareholdings have not resulted in economic impact.**
- **USAID supported the analysis of the economic impact of three major privatizations (TOJ, CCC and NCBG). This analysis showed substantial increases in exports by TOJ and CCC; substantial increases in investment by TOJ and NCBG; and very substantial employment increases at TOJ and a marginal increase at CCC. Our evaluation shows that subsequent privatizations have also resulted in positive impacts in terms of post-**

25

privatization investments (Negril Cabins; Jamaica Soya Products; Kingston Dry Dock; Montpelier/Shettlewood); employment (National Cassava Products; Montpelier/Shettlewood; Darliston Community Foods); but less in exports. The Montpelier/Shettlewood project will ultimately create a strong export impact.

- The privatizations extend across many sectors: food production and processing, infrastructure, construction, tourism, and fisheries; thus, the impact is widely felt.
- USAID supported other useful activities: Professor Carl Stone's assessment of the impact of privatization upon the general public, workers and management; Stone's evaluation of the privatization of markets and garbage collection; an investment promotion conference (in conjunction with MIGA); and privatization training for NIBJ staff in Washington. According to Stone's social impact analysis, the Jamaican public basically supports the privatization process because of perceived improvements in services and this increases as the transaction steps begin.
- It is unlikely that more than a handful of the future privatizations (Hotel Pegasus, the final tranche of Caribbean Cement and perhaps Trans-Jamaica Airlines) will involve public offers because of the lack of positive financial track records of most of the companies remaining in the NIBJ portfolio. It should also be noted that some of these cases will involve significant staff reductions at the point of sale.
- USAID has supported Jamaica's first employee buyout, which turned around a potentially explosive situation at the Government Printing Office. The new company, Jamaica Printing Services Ltd., is not yet on a sound footing and might benefit from IESC or other assistance. Four to five other government operations are apparently lining up to follow GPO's lead. If these companies fail, it would have a negative impact upon the privatization program.
- Compared to many other countries going through the privatization process, the employees affected by the process in Jamaica have been given very small ownership participations (2-6 percent) in the privatized companies.
- No other donor is supporting the privatization effort in the broad-reaching and effective way that USAID is and no other donor has grant funds available for this purpose. As the proceeds of the sales must be remitted to the Treasury, NIBJ has no source of funds other than a budget allocation for the provision of technical services. Primarily because of the contracting arrangement for technical services developed by USAID and NIBJ, we believe that this is an excellent utilization of grant funds provided by the U.S. government.

- **USAID should continue to support the privatization program in Jamaica and should be prepared to support it well beyond 1994.**
- **If the project is amended, USAID should ask that the number of panel contracts for each category of assistance be increased and that an IQC-type bidding be required, where the contractor provides a brief statement on what will be done, who will do it, c.v.'s and budget. Three such bids should be requested and these along with NIBJ's rationale for selecting the contractor should be filed at USAID. When the work is concluded, the deliverables should be submitted by NIBJ to USAID to be filed along with the bidding documentation. This arrangement would not apply to general strategic advice.**
- **To speed up the process, USAID should consider offering to underwrite the costs of a local consultant who can work inside NIBJ to troubleshoot the process and assist NIBJ staff members to expedite the process at the Divestment Committee level, monitor professional service contracting and determine if specialized expatriate assistance is required. This might be a part-time position.**
- **USAID should urge the newly appointed NIBJ president to undertake a 2-week training course in privatization so that he/she will be up-to-speed with the staff. USAID should also fund additional training for staff members: specific seminars where they may gain exposure to the manner in which other countries have resolved complicated problems similar to those now faced by NIBJ; and in valuation and finance as they pertain to privatization. USAID and NIBJ might want to host closed-door working sessions in Kingston where experts that have worked on the privatization of airlines, sugar mills, quota leasing and other timely topics would be invited to assist the Divestment Committees and relevant NIBJ staff to develop strategies. This could be a very cost-effective way to provide NIBJ with top-level consulting advice.**
- **If the EDIP is amended, USAID should study the need for providing assistance through NIBJ to contract the services of local firms that will provide placement, training and small business development assistance to lighten the negative impact upon employees who may be laid off as a result of the privatization process.**
- **USAID should, in every opportunity where it is feasible, urge NIBJ to sell a portion of the shares to the general public through a public offering. This will further capitalize the stock market and broaden investment opportunities. This should be a condition for a future Cooperative Agreement.**
- **USAID should encourage IESC or consider other arrangements to provide services to employee buyouts such as Jamaica Printing Services Ltd. to help management resolve managerial, financial, inventory, technological and marketing problems.**

## **B. Employee Share Ownership**

### **B1. Activities under this Project**

The NIBJ has supported the drafting and promotion of legislation pertaining to the formation of employee share ownership trusts. These trusts would provide a tax incentive for the employer and the lender to the trust formed. NIBJ felt that such legislation would create opportunities for share ownership for employees, who receive only their wages, and for formalizing the employee participation in enterprises as a result of privatization.

An American consultant, Jeffrey Gates, who is an expert in ESOPs traveled to Jamaica twice to review drafts of the proposed legislation and to market the concept to affected parties. This assistance was provided under an NIBJ contract for these services valued at \$180,000. A local firm, Caribbean Applied Technology Center Ltd., was contracted to survey all the employee participation programs existing in Jamaica, as a basis for the formulation of the ESOP concept. There was some previous experience with ESOPs in Jamaica: upon the privatization of the NCB Group, 6.6 percent of the shares was dedicated to an ESOP; Jamaica Broilers had developed an ESOP for its employees to award them; etc. Based upon drafts of the U.S., UK and the Trinidad and Tobago employee share ownership laws, the local law firm of Dunn, Cox & Orrett, drafted the law that was presented into the legislative process. Dunn, Cox & Orret attended Legislative Committee meetings; conferred with Mr. Gates; drafted and redrafted the Committee Report; and continued to analyze the issues involved in the proposed initiative throughout the process. KPMG was employed briefly to develop a tax analysis of the proposed legislation. This draft has served as the basis of a legislative initiative that has at least gone through a preliminary step towards approval, review by the Legislative Council.

In July 1992, USAID supported the first public forum on the concept of ESOPs in Jamaica, which was attended by 400 people. USAID also supported workshops for professionals interested in the concept. Two hundred twenty persons, including lawyers, accountants, and management consultants, attended these workshops. A local firm was contracted through NIBJ to handle all conference arrangements.

The basic concepts of the proposed legislation resemble the U.S. ESOP legislation, which provides tax incentives for setting up an ESOP trust. The fundamentals of the proposed ESOP legislation in Jamaica are:

- The participating company must have at least 50 percent of all eligible employees in the ESOP before any tax incentives are available
- Employees must receive the best class of ordinary shares issued by the company, to be allocated on the basis of salary, length of service or a combination



- Each employee has an account with the trust, which borrows money to purchase the shares; the employee never holds the shares that correspond to his account
- Employees cannot not redeem the value of their account for at least two years after entering the plan
- The trust has the first right of refusal to purchase the shares of a departing employee.
- Employees can buy addition funds in their company; up to 25 percent of their annual compensation can be used in this manner and would be exonerated of taxation.
- Employees, companies and banks would receive various tax incentives: e.g. dividends paid on ESOP shares would be deductible expenses; principal and interest on loans would be partially or wholly deductible; etc.

For approval, the bill must be recommended by the Minister of Finance to a Subcommittee of the Cabinet; the Subcommittee recommends the bill to the Cabinet; the Cabinet must approve the bill, which is then presented to the Parliament.

According to the local Price Waterhouse office, they have worked out the tax-effect models and find the results to be financially feasible for companies that wish to form an ESOP. Their impression was that there are quite a few companies that will form ESOPs once the legislation is passed.

## **B2. Impact by Project Objective**

Since this legislation has not yet been passed, its actual direct effect is nil. However, due to extensive discussions of this proposed law by labor unions and others, the concept of the ESOP is now more widely known and has become a possibility for the employees, provided they can convince the present owners of the company in which they work to recognize the advantages and install ESOP. When adopted, ESOP would meet project objectives by creating addition opportunities for investment. It should be noted that if this legislation is passed Jamaica will become one of the few developing countries with such a law.

The NIBJ is already working to install ESOPs into the privatization process, i.e. to request that buyers include as a part of their offer the plan to set up an ESOP in the privatized company. We believe this is excellent because it will be much easier to encourage ESOPs prior or during the privatization process, rather than in the post-privatization period. We recommend that USAID specifically offer to underwrite the legal costs of setting up these ESOPs as a further incentive to their implementation and as a direct means to achieve project objectives. USAID should establish as a condition for such assistance that the ESOP control as least 10 percent of the best quality shares issued by the company to be privatized.

### **B3. Findings and Recommendations**

- **In support of ESOPs, USAID has paid for the services of a U.S. ESOP expert; has provided funds for a local law firm to draft the now-proposed legislation; and has provided funds to an accounting firm to analyze the tax effects of the proposed legislation. The result of these efforts has been good, and it appears that Jamaican companies are ready to take advantage of the legislation when passed.**
- **A review of the NIBJ proposals for an Economic Empowerment Revolving Fund causes us to concur with USAID in not funding this proposal because in fact such borrowings can be guaranteed at commercial financial institutions by pledging the ESOP shares as collateral. NIBJ has now proposed to the IDB that such assistance be provided through the MIF.**
- **In the case of the proposal for a Technical Assistance Matching Grant Program, we believe there may be some legitimate costs that USAID might want to cover to stimulate the formation of ESOPs.**
- **To the extent that funds are available under the current EDIP, USAID should offer to underwrite the legal costs of forming ESOPs in companies after their privatization, on the condition that the employees' participation would be at least 10 percent.**

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## SECTION V ACTION PLAN

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This section presents the steps that USAID needs to take during the final year of this project. It also provides a strategic analysis of the EDIP project that:

- Builds on the strengths of the previous project activities
- Recommends the termination of activities that are not working
- Moves in directions that will give the USAID mission as much leverage as possible, despite limited funds

This strategic analysis begins to focus on the areas that USAID should work on in an amended EDIP project; and recommends the first major steps that are envisaged under such an amended project.

The major activity areas covered in the evaluation are presented below in the same order as they are discussed in this report. Also discussed is a framework for considering the effects of Section 599.

### A. Jamaica Promotions Ltd.

#### A1. Recommended Strategy for Remaining LOP

In our evaluation of the JAMPRO element we recommended that USAID 1) continue to finance technical assistance in the garment and information processing sectors and 2) explore opportunities to provide further support to JAMPRO's strategy to upgrade the private sector's export capabilities through its industry modernization program.

As at February 28, 1993, the unutilized balance of obligated funds for the JAMPRO element was \$943,000. We recommend that USAID adjust JAMPRO's funding for the remaining one-year LOP to \$443,000 consisting of \$120,000 for technical assistance to the garment sector; \$135,000 to support basic data entry training to the H.E.A.R.T. program; \$20,000 for continued Block Grant Administration; and \$168,000 for other eligible activities proposed by JAMPRO. The remaining \$500,000 should be allocated for technical support to other EDIP elements.

#### A2. Activities and Opportunities for an Amended EDIP

We identified three priority activities for USAID assistance under an amended EDIP:  
1) Upgrading the Garment Sector's technical capacity; 2) Strengthening the technical

capabilities of the information processing sector and 3) development of an integrated trade and export information network for the private sector.

#### **A2a. Upgrading the Garment Sector**

Jamaica's success in the garment sector can only be sustained if it continues to upgrade the industry's capacity to take on more advanced apparel work. Within the last ten years the sector has mastered basic 807 cutting services for U.S. manufacturers and has started to focus on intermediate operations such as Cut, Make and Trim (CMT) services. Beyond this, there are longer-term opportunities to graduate the industry to more value-added services like design work and high-end product manufacturing.

USAID should continue to facilitate the industry's evolution by focusing its assistance under an amended EDIP on technical assistance to upgrade JAMPRO's garment engineering training program and provide intermediate levels of "hands on" support to private sector firms.

#### **A2b. Strengthening the Information Processing Sector**

Information Processing is Jamaica's fastest new growth sector. However, the industry is faced with three constraints: 1) limited resources for overseas marketing, 2) an acute shortage of trained data entry workers and 3) potentially high data transmission costs if a telecommunications monopoly is legislated by the GOJ.

We recommend that USAID focus its resources on a broad-based program that would i) alleviate the current shortage of data entry workers for basic low-end key entry work and ii) broaden the sector's capability to offer higher value-added services such as geographic information services, programming and document imaging<sup>1</sup>.

Within the remaining LOP, USAID support for the H.E.A.R.T training program will help to address the immediate shortage for basic low-end key entry skills. In addition to this, JAMPRO, the private sector and USAID should develop a technical assistance package within the next 12 months of EDIP implementation that would establish a strategy and support for an advanced training program for the sector. The concept should be designed as a cost-sharing mechanism with and should emphasize private sector participation and progressive self-sustainability.

#### **A2c. Trade and Export Information Network**

Continued emphasis on export-led growth has generated increasing requests for donor agency support for specialized and broad-based MIS systems. Within the last 12 months USAID has received requests to support export information systems from the JEA, the agricultural sector, JAMPRO and the Inner Kingston Project. Should USAID support these

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<sup>1</sup> USAID can no longer provide investment promotion or overseas marketing assistance because of Section 599 prohibitions.

individual request? Based on our knowledge of donor-funded information systems that have been introduced in other developing countries we suggest that USAID carefully examine the need for trade and export-related MIS in Jamaica before making financial commitments to support such programs<sup>2</sup> We suggest that USAID do two things: 1) assess the need for these services by interviewing private sector exporters to determine their real needs and 2) determine whether a centralized private sector network should be established if the private sector confirms that such systems are in fact necessary.

### **A3. Estimated Funding Required**

USAID and JAMPRO will have to develop detailed funding proposals for the assistance we have proposed for the garment and information processing sectors. In the case of the garment sector, assistance is likely to lead to a return to previous funding levels for two long-term consultants combined with highly specialized short term interventions for in-plant services. The description and costs of funding intermediate and advanced training programs for the information processing sector will have to be developed by JAMPRO and the private sector.

## **B. International Executive Service Corps**

### **B1. Recommended Strategy For Remaining LOP**

In our evaluation of the IESC element we recommended that IESC: 1) focus on medium-sized and larger clients who possess the absorptive capacity to make best use of its VE program; 2) introduce ABLE service through the banking system; and 3) make contact with the EDIP-funded NIBJ program to offer post-privatization VE services to new companies.

As at February 28, 1993, the unutilized balance of obligated funds for the IESC element was \$114,000. We recommend that these funds remain obligated to IESC for the remaining one-year LOP.

### **B2. Activities and Opportunities for an Amended EDIP**

Under an amended EDIP, USAID should commit adequate resources to allow IESC to provide assistance to 20 - 25 clients per year. We suggest that USAID review the current per-project reimbursement level for IESC interventions since our analysis showed that IESC's direct costs were often potentially greater than its allowed funding under EDIP.

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<sup>2</sup> Many trade and export development information networks have proved to be self-serving, overly complicated, capital intensive and infrequently used by the private sector. These systems often collect data that is of limited use to private firms for export marketing.

## **C. Tourism Action Plan**

### **C1. Recommended Strategy for LOP**

It is recommended that USAID use the TAP self-imposed deadline of July 1 to terminate the proposed pipeline of activities. Using the LOP funding figure of \$650,000 (not the co-op agreement figure of \$750,000) it is estimated that, after terminating the pipeline, funds remaining as of the sub-project completion date of June 1994 will be \$80,000 to \$120,000.

To bring tourism related activities closer to EDIP's intended purpose of increased export and investment, it is recommended that any assistance provided by USAID to the sector through an amended EDIP be based on the following:

- USAID participation follow the same principle that made much of the IESC work successful—provide technical professional services directly to the private tourism sector.
- IESC provide assistance based on the above criterion to a client group that might include restaurants, small hotels, cottages, bed and breakfast operations, Chambers of Commerce, attraction operators, etc. on the same cost sharing basis as all IESC activities.
- USAID should use remaining funds and savings from terminating the TAP/Chamber pipeline to carry out an assessment of potential demand for this service by calendar year-end, using the information to guide decisions regarding structure, size, and parameters for the service. The consultant should be familiar with but not from the IESC, if IESC is considered the likely manager and provider of this technical assistance. We believe that IESC's performance to date and its willingness to undertake tourism support activities make it a prime candidate to provide these services.
- Impact measurements would include site expansion, profit, increases in employees, and, for hotels, occupancy.

### **C2. Tourism's Fit in an Amended EDIP**

To select a focus, if any, for USAID in the tourism sector, it may be helpful to review the most often cited constraints facing the industry. While there may be uncertainty as to the number one problem facing the industry, there is a fair amount of consensus as to the top five concerns: infrastructure (including waste, water, power); harassment; lack of a working master plan (including new types of tourism, future development/environmental protection, coordination); transportation (including signage, availability of public and tourist transport, fleet condition, road conditions); and training/education.

With respect to infrastructure, USAID in cooperation with the Japanese is already contributing significantly through the Negril water project, Montego Bay South Gully drainage and sewage treatment projects, Ocho Rios cruise ship pier extension projects, and the Negril to Port Antonio highway improvement project. Other projects are contributing to sewage treatment in Negril and Ocho Rios, a by-pass road in Ocho Rios, and improvements to both airports.

Harassment is a serious problem requiring extensive attention and education. Most "harassers" see themselves as only trying to make an honest living and performing a needed service. While tourists believe they are being harassed, a 1988 survey of those "intimately involved in the tourist industry" shows the harasser believes that:

- Most tourists have money to spend and have come to Jamaica to spend it.
- Persistence eventually leads to a sale.
- All or most tourists desire what is being offered for sale.
- Since tourists reportedly have money, a vendor has a right to derive some benefit from it by providing goods or services.

Addressing these conflicting points of view will require a continuous educational campaign aimed at key players in the industry. This, however, does not fall in TAP's domain. JTB has the responsibility for public awareness/education efforts in Jamaica and is receiving assistance from the OAS for a public awareness campaign. Still, TAP does have responsibility for training those in the industry. In the past, this has not necessarily included vendors and the like.

Jamaican tourism operates without a global plan. This leads to missed opportunities (eco-tourism, bed'n breakfast) and uncontrolled and poorly devised development plans. For example, the development of all inclusives and the practically closed shop conditions of cruise ship tourism may eventually lead to serious social problems in towns such as Ocho Rios and Montego Bay. On the plus side, USAID's PARC and DEMO projects are providing some vision in environmentally sound tourism product development.

A five-year tourist plan was developed in 1989 as part of the national development plan, but does not seem to be used. As noted above, the OAS has recently completed two of three studies that together could form a national tourism strategic plan. While an implementable strategic tourism plan is needed, many in the industry are skeptical because of the difficulty in achieving adequate consensus and the political nature of tourism.

The lack of public transport, particularly in tourist centers where industry workers often lose hours of potentially productive time traveling from home to work, the poor condition of most public transport vehicles, the officially sanctioned dominance of JUTA, the lack of signage, and the poor condition of roads all contribute to lower productivity of workers and high taxi costs for tourists. It also acts to suppress the desire of the tourist to

explore, which would deepen penetration of the tourist's dollar. Some have proposed rebating import duties for tourism related vehicles, metering taxis, establishing and enforcing vehicle safety standards, and creating special bus routes in tourism centers.

Although public awareness activities remain with JTB, TAP now has the responsibility for training those in the industry. Often "those in the industry" is narrowly interpreted as hotel workers and restaurant owners and their employees. While important to train these people, especially those from smaller hotels that may not have adequate in-house programs, others such as vendors, taxi drivers, and customs and immigration officials require training as well.

There are only a handful of donors in the tourism sector, including USAID, but these few donors cover infrastructure, harassment (through public awareness campaigns), and master plan development. Real improvement in the transport sector may require changing JUTA's status or how it operates, but given JUTA's political nature, it is not recommended that USAID get involved in this at this time.

One of the major findings of this evaluation is that considerable impact has been achieved in the EDIP project through the direct provision of technical services to private enterprises that can absorb them. USAID might consider providing such services to the small and medium-sized tourism operators. Addressing education/training through an IESC mechanism, for example, as previously discussed, might enable USAID to take its tourism assistance right to the private sector, facilitate impact measurement, still impact on the Chambers, not require working with or through a new institution, and not demand excessive management oversight.

In conjunction with other portfolio activities—such as PARC, Kingston Restoration, DEMO, improvements in the stock exchange and the enabling environment, North Coast Development Project—the Mission has a diverse portfolio of activities benefiting tourism. Forming a steering committee within USAID could help to better capture the aggregate effects of these activities and provide a forum for exchange of information and increased awareness concerning tourism within the Mission.

Beyond this, EDIP has the goal of increasing exports and investment, in an attempt to bring tourist related activities closer to the intended project purpose, it is recommended that:

- USAID participation in the tourism sector should follow the same principle that has made much of the IESC work successful—providing technical professional services directly to the private tourism sector.
- Assistance based on the above criterion could be provided by IESC to a client group that might include restaurants, small and medium-sized hotels, cottages, bed'n breakfast operations, Chambers of Commerce, attraction operators, etc. on the same cost sharing basis as all IESC activities.



- USAID should use some of the remaining funds and savings from terminating the TAP/Chamber pipeline to carry out an assessment of potential demand for this service, using the findings of such a study to guide decisions regarding structure, size, and parameters for expanding the Cooperative Agreement with IESC. Such an assessment should not be carried out by IESC, but they should be consulted with on the proposed activity prior to its initiation.
- Impact measurements would include physical or franchise expansion, expanded revenues and employment, increased profit, and, for hotels, occupancy.

#### **D. Small Business Initiatives**

Several EDIP initiatives fall into this category: NDF/J, SBAJ, JAMPRO's Entrepreneurial Centre, and the Peace Corps Vendor Arcade program. Although the last two were not evaluated as closely as NDF/J and SBAJ, some recommendations are offered in light of lessons learned from NDF/J and SBAJ, as well as limited research.

With respect to NDF/J, it is recommended that USAID wind up its EDIP-funded assistance to the organization. Depending on USAID's decision to proceed or not with an efficiency analysis of NDF/J's operations, the amount of money that could be de-earmarked ranges from \$105,000 to \$131,000, based on a current earmark of \$131,000.

If USAID funds the efficiency analysis, suggestions have been presented to strengthen the preliminary TOR submitted by NDF/J. Funding the analysis will make available \$80,000 to \$105,000 for de-earmarking.

As with the NDF/J, it is recommended that USAID wind up its EDIP-funded activities with the SBAJ. Assuming USAID proceeds with the approved, but not yet contracted, SBAJ business plan consultancy, it could de-earmark approximately \$31,500 from the SBAJ line item.

To date the Entrepreneurial Centre has spent nearly \$19,000 of \$20,000 earmarked for equipment and software, with an additional \$30,000 earmarked for direct consultation with production groups to establish or strengthen those capable of achieving sustainability.<sup>3</sup> USAID approved the use of funds for this activity in a February 1993 letter to the Centre.

The Peace Corps Craft Arcade program has an annual budget of \$7,000 to \$8,000 to pay for training of craft vendors and the travel and per diem of a Peace Corps volunteer to visit various vendor arcades. The assistance provided by Peace Corps to craft vendors appears to have a significant impact in terms of people reached (in excess of 2,000), women reached (about two thirds of the total), and business skills learned (vendors now have regional associations and a national organization; manage their arcades; take an active role in the business community; discipline themselves; collect dues; and undertake special projects).

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<sup>3</sup>PIL #26 shows \$87,367 committed to the Entrepreneurial Centre. This was reduced to \$30,000 following consultations on a revised project co-proposal with Peace Corps, but PIL has not been issued reducing amount.

Given the level of funding involved and previous comments regarding the fit of micro- and small business activities under EDIP, the limited direct impact on investment and export, and the difficulty of objectively measuring it, it is recommended that USAID continue its assistance to the Peace Corps arcade program and honor its commitment to the Entrepreneurial Centre, bring both projects to an orderly end by EDIP's PACD.

Although neither function should be included in an amended EDIP, at the very least the Peace Corps vendor assistance initiative should be picked up, if at all possible, by the micro-enterprise development project. The Entrepreneurial Centre should be dropped from an amended EDIP and only picked up if considered necessary by the micro-enterprise project.

## **E. Economic Policy Reform**

### **E1. Recommended Strategy for Remaining LOP**

Since most of the financial and government sector reforms have been either announced in the form of Acts or have been enacted into law, USAID/Kingston should become involved in "policy implementation." Policy implementation is of crucial importance for the success of the economic reform process, considering the following:

- The weakness of government institutions in their institutional capabilities.
- The need to write flexible, reasonable regulations that will not choke off business and investment activities.
- The need to introduce a "promotional" objective, which is equally as important as the regulatory objective in the work of the regulatory bodies.
- The need to correct deficiencies in the laws.
- The need to reduce the discretionary power of the GOJ by strengthening the technical capabilities of the regulatory agencies and giving them the greatest degree of independence possible.

Thus, USAID should target those economic reforms that will support overall reform process and that, at the same time, will satisfy the "USAID Strategic Objectives," which are mainly to promote investment, employment and foreign exchange generation. USAID assistance should be provided in a framework of coordinated participation with other donors, with the Mission taking the leadership role for specific relevant reforms (which presently have little donor coverage) in order to be the catalytic factor which generates additional donor participation.

During the remainder of the project, USAID should undertake the following activities:

- Follow-through with the already planned assistance to the Ministry of Finance, given the conditions that the Ministry sets forth a well-defined agenda of technically sound projects with clearly stated responsibilities for implementing them. This activity should be the basis under the amended EDIP for a project "pillar" supporting economic policy reform.
- Follow-through with its intended technical assistance to flesh out the formation of a Fair Trade Competition Commission conditioned on amendment of the recently passed Act.
- Negotiating with the Jamaica Stock Exchange and the Government of Jamaica the establishment and operation of a securities commission and the strengthening and modernization of the JSE. This activity can make such an important contribution to the expansion of the Jamaican capital markets that we envisage the Securities Exchange becoming a second "pillar" in the amended EDIP.

## **E2. New Activities**

Given USAID's commitment to the securities market area and the above mentioned considerations underlying the success of policy implementation, we recommend, in addition to the activities in which the Mission is already involved and for which any future involvement should be conditioned, that USAID become involved in the following new activities. These activities are listed in order of their priority.

The Securities Commission: its establishment, operation and strengthening through:

- Provision of technical assistance, appropriate training activities and commodities to organize the Securities Commission, make it operative, and strengthen it as it gains momentum and experience.
- Provision of technical assistance in the drafting of guidelines, manuals, and instructions as the essential activities of the implementation phase of the law, as well as an associated advisory role vis-a-vis the GOJ on financial innovations and any necessary new legislation. The Securities Commission should not only be a supervisory entity, but also an implementing agency of the reform. An expanded treatment of this recommendation is found in Annex E of this report.
- Such assistance may cost US\$ 1.0-1.2 million.

The Jamaica Stock Exchange: its modernization in procedures and automation through:

- Provision of technical assistance, training and commodities for the modernization of its systems and operations.

- Provision of technical assistance to establish the necessary private sector infrastructure which will make the exchange a modern, reliable, technical institution, e.g., clearing houses, central depository organizations, investor protection funds, private rating agencies.

Such assistance, exclusive of computer hardware, may cost up to US\$ 1 million.

**An Independent Bank of Jamaica Act: its role defined as the formulator and implementer of monetary policy, and supervisor of financial institutions through:**

- Provision of technical assistance during the period of study of what steps would be required to make the BOJ an independent, technical entity responsible for formulating and carrying out the country's monetary policy and for regulating the financial sector. Determination must be made of the support now provided or proposed by other donors.
- Provision of technical assistance in the preparation of an amendment to the original BOJ Act.
- Provision of the advice and assistance by other countries' central banks.

**Customs and Excise Department: its strengthening and modernization through:**

- Provision of technical assistance to revamp all personnel procedures ranging from personnel selection to the quality of supervision and management required in order to improve the effectiveness and integrity of the CED workforce.
- Provision of technical assistance and commodities to streamline, modernize and rationalize customs activities and procedures.
- Provision of technical assistance to institute the necessary legislation to strengthen the CED and to ensure the implementation of certain specific tax reforms which would increase collections consistent with both revenue objectives and those of the tax system as a whole.

### **E3. National Action Plan**

There is a definite role for NAP in the current economic environment. However, NAP is moving very slowly and, if it is to have impact, must get on track. Recommendations have been offered for doing this. If NAP succeeds, USAID may wish to reconsider NAP's budget, shifting money from the "Administration and Program Development" line item to "Development and Prioritization of Action Oriented Initiatives," thereby providing NAP with more money to engage consulting services. Alternatively, USAID could transfer funds from another activity to NAP depending on NAP's success at productively drawing down the funds.

USAID should fund NAP under an amended EDIP only if it has made significant progress in developing and implementing an effective reform agenda. NAP should be put on notice that progress is expected or USAID will not continue its financial support beyond March 1994.

**F. Privatization and Employee Ownership**

**F1. Recommended Strategy for Remaining LOP**

USAID should continue to support the NIBJ at present levels through the end of the project. To speed up the process USAID should offer to finance a qualified local consultant to work inside the NIBJ to expedite the process at the Divestment Committee level, monitor professional service contracting, and determine if specialized expatriate assistance is required. This will require EDIP funds. These sessions may lead to additional technical assistance that USAID may wish to finance.

USAID should continue to support technical training for the NIBJ staff, as well as general privatization training for the newly appointed president.

USAID should also finance closed-door sessions for the Divestment Committees on some of the more intractable problems facing the privatization program.

USAID should offer to finance the legal costs of forming ESOPs within companies that have been privatized on the condition that these ESOPs would comprise an employee participation of at least 10 percent.

**F2. Activities for an Amended EDIP**

We believe that the success of the privatization program, its importance to the economic reform process, and its continuing need for funding mean that the program should become a third "pillar" in an amended EDIP.

USAID should be prepared to underwrite the costs of this program for as long as four years during the amended project period.

**G. Section 599 and Its Effect Upon Future Project Activities**

This section discusses the effect of Section 599 of the 1993 Foreign Operations, Export Financing and Related Program Appropriations Act upon future project activities. The project team has developed some criteria that will allow USAID/Jamaica to adhere to Section 599. Section 599 specifically prohibits the use of appropriated U.S. Government resources for funding investment promotion and investor support activities to attract U.S. companies to offshore locations that result in a loss of jobs in the United States. The law also prohibits the use of appropriated funds for assistance that could contribute to violations of internationally recognized workers' rights.

## **G1. Approach to Developing an Eligibility Framework**

We suggest that the Mission take the following approach to establish an operational framework that would ensure compliance with Section 599 legislation. First, the Mission should assess Jamaica's adherence to internationally recognized workers' rights. This assessment should consist of a) a comparison between international rights of workers and the rights of Jamaica workers on a sector by sector basis and b) identification of industries and sectors that are in violation of those rights.

The findings from this study should allow the Mission to establish a checklist of the types of activities and areas of assistance that would be in violation of Section 599 legislation. It should also allow the Mission to clearly identify those activities, sectors and target groups that recognize international workers rights in Jamaica. These activities should then be classified into two groups: a "negative or ineligible" list and an eligible or approved" list.

This approach would allow USAID to strengthen its pre-screening system and apprise AID/Washington that a system has been adopted to ensure that appropriated funds would only be used for eligible activities or to provide assistance and financial support to those sectors that are not in violation of those international workers rights.

Second, the Mission should create a list of ineligible investment promotion activities that no longer qualify for USAID financial support. Ineligible activities should include funding promotional activities in the U.S. to attract U.S. businesses to relocate in Jamaica; funding joint-venture programs that would result in a reduction in jobs in the U.S.; providing financial support for training institutions or programs whose purpose or outcome is to reduce the start-up (training) costs of foreign businesses interested in relocating from the U.S. to Jamaica; and institutional support to investment promotion entities that would result in a strengthening of their capabilities to attract U.S. business to re-locate operations in Jamaica.

Third, USAID should clearly identify funding support for a) export development from support for investment promotion assistance; b) direct assistance to U.S. investors in Jamaica from general or broad-based assistance in export sectors; c) investment promotion in industries or sectors that can seek to attract U.S. investors because those activities are not undertaken in the U.S.; d) trade promotion and technology acquisition and transfer from the U.S.; and e) trade association support versus support for investment promotion agencies.

## **G2. Eligible Activities**

The following activities would be eligible for future OPE project assistance based on the third step of establishing distinctions between export development and investment promotion; between trade promotion and technology transfer; and between institutional support.

- Funding of technical studies to support the development of new industries that do not compete with U.S. industries.

- **Technical assistance and/or funding for commodities and services to upgrade human resources and for enhancing technical skills for future employment in industries where the expected beneficiaries, firms and organizations, are not in violation of the three prohibited international labor laws and investment promotion to attract U.S. businesses offshore.**
- **Development of trade and export information systems with links to U.S. and global systems that would help to improve the efficiency of Jamaican exporters.**
- **Firm-level assistance, such as IESC and JAMPRO's garment program, to companies not in violation of the three prohibited Section 599 activities noted above.**
- **Institutional support and technical assistance for export development and private sector organizations that provide support services to their members that such organizations are not involved in investment promotion activities directed at attracting U.S. companies to relocate part or all of their operations offshore.**
- **Institutional support and technical assistance for macroeconomic fiscal policy and related programs designed to improve or strengthen economic reform and trade liberalization initiatives.**
- **Institutional reform for investment promotion agencies (that is, funding support that would lead to the privatization of investment promotion functions).**
- **Attendance at trade/equipment shows in the U.S. by technical personnel of majority-owned Jamaican firms to expose those firms to new equipment and technology which they could procure from the U.S. to upgrade their businesses in Jamaica.<sup>4</sup>**

### **G3. Monitoring System**

As noted in our assessment of USAID compliance with Section 599 legislation, the Mission now requires that all executing and implementing agencies sign a certification statement that commits them to honoring prohibitions established under that law. We suggest that OPE, in addition to this certification, should carry out annual reviews of the host country's institutions' adherence to the Section 599 legislation. To ensure continued

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<sup>4</sup>The Bobbin Show is a trade show and not an investor search mechanism. USAID has prohibited the use of EDIP funds for private sector attendance at such shows. In our opinion USAID should continue to support Jamaica's attendance at such shows since the purpose of the attendance at such shows is to stimulate U.S. exports and technology transfer to importing countries like Jamaica.

compliance, OPE should interview implementing agencies and beneficiaries to trace the use of funds and to determine the outcome of technical assistance in terms of the impact on U.S. jobs, adherence to international workers' rights, avoidance of investment facilitation, and the exclusion of direct assistance to free zone firms.

#### **H. Operational Implications**

Exhibit V-1, on the following page, demonstrates the effects of de-obligating some projects while initiating others during the present contract period.



EXHIBIT V-1

EVALUATION TEAM RECOMMENDATIONS FOR OBLIGATIONS/DE-OBLIGATIONS

Based on 2/28/93 disbursements

Project Component	A LOP	B MACS Report Obligations	C Disbursements	B-C Oblig-Disb	A-C LOP- Disbrsmts	D Recommended De-Obs	E Recommended Obs	B-C-D+E Obs Left to Spend
JAMPRO	1930500	1830500	887824	942676	1042676	500000		442676
NIBJ	1269057	1248700	621587	627113	647470		400000	1027113
IESC	500000	385448	250000	135448	250000	0		135448
TAP	650000	401000	110790	290210	539210	120000		170210
MISSION MGD	1023443	1223443	559380	664063	464063	0		664063
NDF	181000	131000	3564	127436	177436	100000		27436
CONTINGENCY	106000	56000	0	56000	106000	0		56000
PSOJ	340000	240000	0	240000	340000	0		240000
FPMU	1000000	400000	0	400000	1000000	0		400000
TOTALS	7000000	5916091	2433145	3482946	4566855	720000	400000	3162946

V-15

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**APPENDIX A  
PERSONS INTERVIEWED**

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**Baird & Henderson**

Bob Wheeler, Valuer

**Canadian High Commission**

Ross L. Noble, First Secretary (Development)

**Casual Designs Ltd.**

Douglas Williams, Deputy Managing

**DPK Jamaica Ltd.**

Peter Chin, Managing Director

**Deloitte & Touche**

Philmore Ogle, Partner, Management Consulting, and First Vice President of the Chamber of Commerce

**Dunn, Cox & Orrett**

Mark Golding, Attorney

**Eagle Merchant Bank of Jamaica Limited**

Colin Steele, General Manager

**Easton Douglas & Co.**

Jacqueline Douglas Brown, Director, Professional Services

**Executive Decision Consulting, Ltd.**

Gary Patterson (MIS Consultant)

**Furniture Institute Research Association (U.K.)**

Nicholas Claxton, Consultant, Design and Development

**Global Sourcing Ltd.**

**Aja Mansingh, Managing Director**

**Hi-Grade Limestone Ltd.**

**Keith Scott, Managing Director**

**ICWI**

**Hon. Dennis Lalor, past President of the PSOJ and NAP Steering Committee member**

**Inter-American Development Bank**

**Jacques Cook, Representative  
Edward Farnworth, Regional Environmental Advisor Caribbean**

**International Executive Service Corps**

**Robert Mareneck, Executive Director  
Eric Abrahams, Chairman, National Advisory Council  
Col. Nigel Ince, Project Officer  
Roy Potter, Volunteer to the Kingston Restoration Company**

**International Executive Service Clients**

**Clifton G. Ho Tung, Managing Director, Lubricare Ltd.  
John Ruland, Managing Director, Jamaica Flour Mills Ltd.  
John Griffith, Managing Director, Jamaica Dental and Chemical Laboratories Ltd.  
Bridgette Joseph, Owner and Manager, Bridgette's Sandals Ltd.**

**Jamaica Chamber of Commerce**

**Donald Lyn, Executive Director**

**Jamaica Exporters Association**

**Pauline Gray, Executive Director  
Beverly Lopez, President  
R. Karl James, Past President**

**Jamaica Manufacturers Association**

**Anthony Robinson, President  
Anthony Hyde, Deputy President**

Valarie Sharpe, Executive Director  
R. Karl James, Past President

Jamaica Orange Company, Ltd.

Donald E. Menzies, General Manager

Jamaica Printing Services Ltd.

Ralph Bell, General Manager

Jamaica Promotions Corporation (JAMPRO)

Winston Gooden, Vice President, Production and Promotion  
Ambrose DaCosta, Vice President, Administration  
Brenda Robinson, Group Director, Manufacturing Industries  
Don Thompson, Group Director, Information Processing  
Glenroy Miller, Director, Minerals, Chemicals and Cosmetics Division  
Jackie Neath, Manager, Film Office  
Stuart Anderson, Garment Industry Consultant  
Dorothy Williams, Liaison to USAID  
Andrene Collings, Senior Director, Export Marketing Intelligence, International  
Marketing and Trade  
Dorothy Palmer, Head, Technical Assistance Unit  
Dudley Chase, Project Manager, CANEXPORT Project  
Emerson Young, Group Director, International Trade Division  
Joel Suris, former Furniture Consultant, Furniture Unit  
Melrose Wiggan, Group Director, Entrepreneurial Center

Jamaica Stock Exchange

Fernando de Peralto, Chairman, and Deputy Governor of the Bank of Jamaica  
Donna Beman, General Manager

Jamaica Hotel and Tourist Association

Camille Needham, General Manager  
Thelma Williams, Assistant Manager

Jamaica Tourist Board

Penny Budhlall  
Ron Miller

Jamaica Venture Fund Limited

Noel Lyon, Managing Director

**Jamaica Womens' League**

Monica Lawrence, General Manager, Allsides Work Room

**Kingston Heirloom Ltd.**

David Byles, General Manager  
David Sadler, CFTC Furniture Consultant

**KPMG Peat Marwick and Partners**

John C. Beman, Partner  
V. Stephen Francis, Assistant Manager

**LASCO Distributors Ltd.**

Lascelles A. Chin, Chairman/Managing Director

**Ministry of Finance**

Shirley Tyndall, Financial Secretary  
Shirley Tavares  
Gloria Grey  
Edward Bernard,  
Carole I. Jones,

**Ministry of Production, Mining and Commerce**

Lawrence A. Henry, Director, Geological Survey Division

**National Development Foundation of Jamaica**

Dr. Blossom O'Meally-Nelson, Executive Director  
W. Billy Heaven, Deputy Executive Director

**National Investment Bank of Jamaica Ltd.**

Nathan Richards, Chairman  
Steve Sterling, Vice President, Operations  
Vanessa Spence, Director, Privatisation  
I. Ricardo Corrie, Manager, Privatisation  
Len Smith, Director, Investment Division  
Dudley Sackaloo, Manager, Privatisation  
Patricia Shako, Manager, Analysis & Planning  
Rosetta Morris, Financial Analyst

**Negrin Jamaica Ltd.**

Mike Stevens, Production Manager

**Organization of American States**

Arthur Heyman, Director

**PRAGMA Consultants Ltd.**

Robert Stevens

**Price Waterhouse**

Richard L. Downer, Partner

**Private Sector Organisation of Jamaica**

Charles Ross, Executive Director

Frank Lopez, Executive Director NAP

Robert Chambers, Economist NAP

Douglas Orane, President of PSOJ and member of NAP Steering Committee and  
Managing Director, Grace Kennedy & Co.

**Quality Manufacturers Ltd.**

Eric Chin, Managing Director

**Revenue Board**

Edwin Tulloch-Reid

Marie Hamilton

**Small Business Association of Jamaica**

Donald Grey, President

Sybil Thompson, Executive Director

Catherine Glenn, Peace Corps Volunteer

**Tourism Action Plan, Ltd.**

Fay Pickersgill, Executive Director

Sylvia Johnson

Sandy Chung

Vincent Halgate, President, Port Antonio Chamber of Commerce also owner Fern  
Hill Hotel

Sybil Rendle, Manager, Port Antonio Chamber of Commerce  
S.V. (Val) Brown, Manager, St. Ann Chamber of Commerce, Owner, Bill's Place,  
Ocho Rios  
Calvin Brown, Executive Director, Montego Bay Chamber of Commerce  
John Carney, Owner, Marguerite's Restaurant, Montego Bay  
Daniel Grizzle, President, Negril Chamber of Commerce, and owner of the Charela  
Inn, plus six other individuals from the Negril Chamber of Commerce  
M. Diana McIntyre-Pike, owner Astra Hotel and Chairman of Countrystyle,  
Mandeville  
Stafford Haughton, hotelier, Mandeville

Trade Board Ltd.

Phillip Paulwell,

Trafalgar Development Bank

Jerry Neisen, Managing Director  
Sheila Martin, Manager, Financial and Corporate Planning

The World Bank

Ms. Aysegul Akin-Karasapan, Economist, Trade, Finance & Industry Operations  
Division, LAC Region  
Mark C. Dorfman, Financial Analyst, Trade, Finance, Industry & Energy Department  
III, Latin America & The Caribbean Region  
James Hanna, Trade, Finance and Industry Department, Latin America & The  
Caribbean Region  
Steve Webb, Senior Economist, Caribbean Division III

United Nations Development Programme

Denis Benn, Representative

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**APPENDIX B  
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**APPENDIX C  
ACRONYMS**

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<b>BOJ</b>	<b>Bank of Jamaica</b>
<b>CCC</b>	<b>Caribbean Cement Company Limited</b>
<b>CED</b>	<b>Customs and Excise Department</b>
<b>EDP</b>	<b>Electronic Data Processing</b>
<b>EDIP</b>	<b>Export Development and Investment Program</b>
<b>FAA</b>	<b>Financial Administration and Audit Act</b>
<b>FPMU</b>	<b>Fiscal Policy Management Unit, Ministry of Finance</b>
<b>GCT</b>	<b>General Consumption Tax</b>
<b>GOJ</b>	<b>Government of Jamaica</b>
<b>IDB</b>	<b>Inter-American Development Bank</b>
<b>IESC</b>	<b>International Executive Service Corps</b>
<b>IPG</b>	<b>Information Processing Group</b>
<b>JAMPRO</b>	<b>Jamaica Promotions Limited</b>
<b>JEA</b>	<b>Jamaica Exporters Association</b>
<b>JMA</b>	<b>Jamaica Manufacturers Association</b>
<b>JSE</b>	<b>Jamaica Stock Exchange</b>
<b>MOF</b>	<b>Ministry of Finance</b>
<b>NCBG</b>	<b>National Commercial Bank Group Limited</b>
<b>NDF</b>	<b>National Development Foundation</b>
<b>NIBJ</b>	<b>National Investment Bank of Jamaica</b>
<b>OPE</b>	<b>Office of Private Enterprise</b>
<b>PE</b>	<b>Public Enterprise</b>
<b>PSDAL</b>	<b>Private Sector Development Adjustment Loan</b>
<b>PSOJ</b>	<b>Private Sector Organisation of Jamaica</b>
<b>SC</b>	<b>Securities Commission</b>
<b>TAP</b>	<b>Tourism Action Plan</b>
<b>TOJ</b>	<b>Telecommunications of Jamaica Limited</b>
<b>UNDP</b>	<b>United Nations Development Programme</b>
<b>USAID</b>	<b>Mission of the U.S. Agency for International Development</b>
<b>USCS</b>	<b>United States Customs Service</b>

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**APPENDIX D  
REVIEW OF COMPANIES PRIVATIZED OR  
IN PROCESS DURING THIS PROJECT PERIOD**

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**Jamaica Fisheries Complex**

Building located on the waterfront with piers, plus cold storage facility. The facility was not operating when the NIBJ began to privatize this complex in 1986. Serious vandalism and theft had reduced the value of this property considerably. The ice plant was totally ruined. Hurricane Gilbert damaged the facility even further. The property had to be revalued several times as vandalism, theft and storm damage reduced the value of the property. USAID funds were used to pay for valuation updates.

Wisynco Ltd. leased the facility in 1991 for J\$262,000 annually, with a 15 percent increase every 3 years. Page Brown is leasing the ice plant. The condition of this property is very poor.

**Agricultural Marketing Services**

Mechanical workshop of the Ministry of Agriculture for the repair of tractors, vehicles and farm machinery. NIBJ began to privatize this property in 1985. In the inventory was a large amount of spare parts. This workshop was heavily damaged by vandalism and the weather; many of the spares were stolen before privatization was achieved. Further, illegal sand extraction has caused the adjacent river to change its course and it erodes the property.

The equipment and the building were sold to Matrix Engineering, which owns the adjacent property, for J\$2 million. The Commission of Lands owns the land and NIBJ still has not been able to obtain clear title to the land. St. Catherine's Parish must approve the subdivision of the property and the transfer of this portion to Matrix. USAID provided the funds for valuing the property; the valuation and the inventory of items had to be updated several times because of the ongoing damage to the property. USAID also provided funds for advertising the sale of the assets.

**West Indies Glass Ltd.**

Bottle plant that was a joint venture between two government entities with a 60 percent shareholding, and two private sector shareholders, Wray & Nephew and Dennoes & Geddes. Wray & Nephew is the maker of Appleton Rum and Dennoes & Geddes bottles Red Stripe beer and soft drinks. This is the only bottle manufacturer in Jamaica. After negotiations that lasted two years, the government sold its shareholding in 1991 to the two private shareholders for J\$40,000,000, which enabled them to obtain the bank financing to overhaul the furnace. Price Waterhouse prepared an initial privatization strategy and established a

value range for the plant. USAID paid for the legal firm to represent the government's interests in this transaction.

### **Kingston Dry Dock Limited**

This small boat repair facility, which had been damaged by fire, had been constructed in the 1960s to repair fishing and coast guard boats. Boats had to travel to Miami or Honduras for repairs, prior to this privatization. The major asset of the facility was a synchrolift, used to lift boats from the water. The government preferred a lease because of the facility's location in the harbor. The facility was leased for 25 years starting in 1991 for \$J360,000 annually. USAID funds paid for the preparation of the inventory of assets.

The facility has been refurbished and is operational. The lessee, who has a fleet of fishing boats, employs 5 full-time persons and 12-15 contract workers at the facility.

### **Negril Cabins**

These rustic cabins were constructed by PETROJAM when it had an exploration team working in the Negril region. Later, the cabins were used for tourism. PETROJAM took the lead in negotiating with the buyer and preparing the sales agreements. This transaction was not financed by USAID.

Since its privatization, the cabins have been extensively refurbished by the Jamaican buyers who are planning for expansion.

### **Negril Royal Palm Reserve**

Adjacent to the Negril Cabin was a 25-acre tract of wetlands that the Natural Resource Conservation Agency wanted to protect. The government agreed to the lease of the tract for J\$1 million annually to the private operators of Negril Cabins.

### **RJR "B" Shares**

NIBJ divested the 25 percent government shareholding through a public offer.

### **Montpelier/Shettlewood Properties**

This 3000 acre tract of land south of Montego Bay was owned by the Commission of Lands and was used by the Agricultural Development Corporation for dairy farming. JAMPRO has performed a feasibility study concerning orange cultivation on this site. The property was advertised a number of times without success.

Finally in 1992 NIBJ was able to sell the land to Jamaica Orange Company Ltd., a Jamaican-American joint venture for J\$18 million. USAID funds were not used to support this transaction. A valuation was prepared and negotiations between the government and Jamaica



Orange were based on the valuation. The Attorney General's Office prepared the sales documents.

It is unfortunate that this sale cannot be attributed to USAID support as the property has now been largely cleared and has been planted with orange seedlings, resulting in a considerable economic impact in that locality.

#### **National Commercial Bank Ltd.**

NIBJ facilitated the divestiture of the final tranche of these shares, worth US\$11 million.

#### **Caribbean Steel Co. Ltd.**

This steel mill imports ingots which it transforms into reinforcing bar for construction. NIBJ held 51 percent of the shares of this already listed company. USAID funds were used to contract various professional firms to carry out the flotation of these shares: Myers Fletcher & Gordon, legal counsel; NCB Merchant Bank, issue managers; Price Waterhouse, issue advisors; Winnie Rizdon-Hunter, public relations; and Butler, advertising firm. Based on an expanded version of the original share sales strategy for NCB, this issue was widely promoted. The shares were offered in October 1992 and were oversubscribed by five times. Twenty-seven million shares were sold to the general public and 3 million were allocated to an ESOP scheme. About 4 weeks were required to clear the subscriptions and refund the excess money. Caribbean Steel is considered a very successful transaction. So far there has been no change in the board or management.

#### **Cornwall Dairy Development Ltd.**

This former milk processing facility is located adjacent to the Montpelier-Shettleworth land described above. This Swedish aid project was to process UHT milk. It has been inoperative for a long period of time, and had undergone considerable damage from vandalism and the roof was caved in by the hurricane. USAID funds were used to verify the inventory and to estimate the cost of the roof repair. When the property was advertised, several bids were received. The highest offer came from Jamaica Orange Company Ltd., which wanted to use the facility to first pack oranges and, eventually, process orange juice. The transaction has not closed, yet, but the buyers have made a deposit of J\$1.4 million. They want to close on the deal, but the NIBJ has not moved quickly to finish the sale.

#### **Darliston Community Foods**

This is a small fruit processor and cannery whose assets had been abandoned, which was sold on a "lease to purchase" basis. This means that the lease proceeds are applied to the sales price, but the facility is leased for a 5-year period during which time the lessee must perform according to the development plan submitted as a part of the offer. This strategy effectively ensures that the lessee's actions are controlled by NIBJ.

### **Caribbean Cement Co. Ltd.**

NIBJ held the warrants to purchase one share for every 8 at \$J12. USAID funds were used to invite tenders by institutional investors for the rights issue. Total sale amounted to \$J16,964,495.

### **Caribbean Metal Products**

This is a relatively insignificant transaction, amounting to a 1 percent shareholding valued at only J\$1,257,103. The shareholding was sold to the majority shareholder. This transaction was primarily handled by Jamaica Development Bank.

### **National Cassava Products Ltd.**

This plant was to have produced cassava flour for blending with wheat flour. It encountered lots of management and technical problems and has been inoperative for a number of years. It has extremely poor access. USAID funds paid for the valuation of the agricultural land, building and machinery in 1991. Unlike many of the other properties, this one was basically intact.

When advertised, several offers were received. Cabinet has approved the sale. The successful bidder, Bells Group, will use the facility for the production of animal feed. They have offered to pay to pay J\$3.2 million. NIBJ's attorney has prepared the sales documents. This transaction should close shortly.

### **Jamaica Soya Products Industries Ltd.**

This is a joint venture between the Jamaica Commodity Trading Company Ltd., a government-owned company, and a Minneapolis investor. Jamaica Commodity Trading held 60 percent of the shares, while the American investor held 40 percent. Jamaica Soya imports soya bean which it mills into oil. The refining of the oil, however, has been performed by another company, CEPROD. The American investor gave his permission for the government to sell their shares, but not as a public issue. A shareholding (54.1 percent) was advertised and two offers were received. An ESOP giving the employees 5.9 percent of the shares was to be created. Negotiations took more than 2 years, with strong disagreement regarding price. LASCO Processors Ltd. was the successful offeror. LASCO intends to install US\$3.8 million in refining equipment to create more value-added at the plant. USAID paid for a valuation by Pannell Kerr Forster that was strongly questioned by the buyer. Auditors were employed to pull the financial records together. The Jamaica Commodity Trading Company provided the legal services for this transaction. The transaction has been approved by Cabinet, the sales agreement has been drafted and it should close shortly.

### **Jamaica Drip Irrigation**

This company, which sells irrigation equipment, originally operated as a part of the Spring Plains estate. The sale of shares resulted in proceeds of J\$600,000.

## **OTHER TRANSACTIONS IN PROCESS**

### **Air Jamaica**

The sale of the national airline has involved a long, torturous process. The NIBJ is participating in the negotiations with a prospective buyer. USAID records show that it has reimbursed NIBJ for payments for professional service payments to Price Waterhouse since October 1990. In 1992 the World Bank brought in two consultants from Chile who analyzed the situation in terms of: (a) next steps and timetable needed to offer Air Jamaica for sale; (b) whether a valuation exercise was needed or not; (c) whether a merchant bank was necessary; the preferred strategy to successfully divest Air Jamaica. From the steps taken, the government apparently felt that it was unnecessary to do a proper going concern valuation or bring in merchant bankers or others to assist in marketing the airline.

Presently the negotiations have proceeded based on a poorly constructed valuation of the airline, that accrues excessive values to the routes utilized by Air Jamaica without due regard for operational realities of the airline. Further, the negotiations are on-going with a company that is not an airline operator, requires the retrenching of all airline personnel, results in no payment to the government for the airline, gives the government a nonvoting participation for assuming all the debts of the airline, which can only be exercised should the airline be wound up or resold. We believe that if this transaction is successfully completed it will not be a positive result for the government.

### **National Water Commission**

A study financed by USAID was prepared by the Water and Sanitation for Health Project in April 1992 through the RHUDO. This study did not take concrete positions, but rather presented the range of options available for privatizing NWC. In March 1993, Price Waterhouse has prepared the terms of reference for a strategy study of the privatization of NWC, including its core activities.

### **Eastern Banana Estates**

This 2000-acre estate is 40 percent government-owned; 20 percent by the Commonwealth Development Corporation; and 40 percent held by the Jamaica Producers Group. The latter holds the export rights for bananas. This privatization seems stalled, as the government attempts to negotiate through JAMPRO its ED quota for the next 3 years. The buyer/lessee must be able to raise the output of the estate from its current 75,000 tons to 105,000 tons. Cabinet has become concerned and has named a steering committee to examine the EC market issues.

### **Ministry of Construction (Works)**

This heavy equipment division might be spun off to private operators. The Ministry has expressed considerable reluctance because its perceived lack of control over the heavy equipment in the event of a natural disaster, such as a hurricane. A feasibility study of the

spun off operation, provided an adequate answer can be supplied regarding national emergencies.

#### **Minard Estates**

The 1500-acre property is operated by the Agricultural Development Corporation, which uses it for animal husbandry purposes. The obstacle is to determine how the semen of the present breeding lines can be stored to prevent its disappearance in case the privatized operation should go bankrupt. The property includes two great houses.

#### **Milk River Bath**

USAID has paid for the valuation of this small, rundown hotel and spa.

#### **Farm Machinery Center**

USAID has paid for the equipment valuation of the mechanical workshop that supported the now-defunct Agro 21 project.

#### **Bath Fountain**

USAID has paid for an assets valuation for this small spa.

#### **Victoria Banana**

USAID has paid for the a valuation of the drip irrigation system left behind by Israeli investors.

#### **Sugar Estates**

This divestiture has already been studied extensively by Cabinet in minute detail. It is highly complicated transaction where the Sugar Industry Authority is the sole agency with the authority to export or import sugar. SIA also owns 43 percent in most of the National Rums Ltd. holdings and the sugar estates. National Rums Ltd. is a holding company which holds 51 percent in the Innswood Distillery and the Clarendon Distillery, and 100 percent of the Long Pond Distillery and the Innswood Vinegar Ltd. USAID has paid for a divestment study of National Rums of Jamaica Ltd. USAID has also paid for the equipment valuation at the Innswood Distillery (vinegar plant) of the National Rums plant. This equipment is reported to be in good condition and should sell easily. It has also paid Lambie Datacon for the preparation of a prospectus for National Rums of Jamaica.

The NIBJ is currently valuing the Frome Estate Ltd. (6,000 acres) and the Monymusk Estate Ltd. (8,000 acres). These estates are vested in the Commission of Lands. Other sugar estates to be privatized include the Long Pond Sugar Estate and the Bernard Lodge (Petronol) Sugar Estate.

**NIBJ is seeking opinions from the Attorney General's Office and has recently contracted a World Bank consultant on the deregulation of the industry. The World Bank mission of 1992 recommended that the market be liberalized and that import tariffs gradually be reduced to bring domestic prices in line with world prices, and to lease the export quotas to operators.**

**NIBJ has now done the asset valuations and is preparing prospectuses for the sale of Frome and Monymust Estates. The strategy is to lease the land and sell the mills. NIBJ anticipates that they will have some of the estates on the market in 6 weeks. The evaluation team believes that these mills will be very difficult to sell as there are numerous other mills on the market in the Latin American-Caribbean region as this is an industry which worldwide is subject to excess production. It appears that none of these mills can be privatized without protecting the domestic market in which they are located. This activity requires a reduction in production based upon future demand.**

#### **Ariguanabo Textile**

**USAID has paid for an inventory and valuation of the equipment by Baird & Henderson at this textile factory, which operated until late last year. The machinery is reported to be totally obsolete. This may be a tough sale, but it has already been advertised, and reportedly negotiations are in process.**

#### **Hospital Services**

**KPMG were contracted to perform an initial study on the laundry, catering, maintenance and security services at the University Hospital; Kingston Public Hospital; Spanish Town Hospital; and the Kingston School of Nursing. The study analyzed the current costing arrangements with those of a privatized operation. The concept was to determine whether these services could be contracted out to reduce employment costs. USAID paid for this study. A proposal has been submitted to the Ministry of Health and the NIBJ for the implementation of the recommendations for security, maintenance and janitorial services at the University Hospital. It now appears that the USAID Health and Population Office is supporting these activities.**

#### **Spring Plains**

**This 948-acre tract of land was previously used by Agro 21 for horticulture. USAID has paid for a valuation of the land and equipment at this site.**

#### **Sangster International Airport**

**This privatization, because of its national importance, is being led by the Office of the Prime Minister's Policy Review Unit. The government originally contracted with Birk, Hillman and Zipperly to do the design for the construction of a new airport terminal for Montego Bay. Subsequently it was decided that there should be a privatization element in the construction and ultimate operation of the facility. USAID assisted with a shortlist of professionals working on airport construction and professionals. Two persons, Poole and**

Call were contracted to do the work. NIBJ contracted with a local firm, Fidelity Economic Financial & Marketing Services Ltd., using USAID funds to provide data gathering services to facilitate the foreign consultants' work. The study recommended a build-own-operate (BOO) scheme, requiring at least 24 months to initiate construction. Lining up the financing was reported to be a time-consuming step. Meanwhile, political considerations began to influence the direction of this project as it would be the largest investment ever undertaken by the Jamaican government. As elections were foreseen for 1993, it was deemed good political strategy to open a new airport just prior to the elections. The government was going to finance 50 percent of the construction costs and oversee construction, while the remaining 50 percent would be raised from local equity partners. There has been a political task force appointed to move the process forward but, instead of using a private-sector approach, the project has bogged down by political considerations and limited ability to move forward such relatively large-scale projects.

### **Government Printing Office**

USAID has paid for a series of services to support this landmark privatization. The work was performed under a shroud of secrecy because of the delicacy of the labor situation at the GPO. USAID paid for the following services: inventory of the assets and a business plan for the employee buyout was carried out by Dennis Patterson & Co. Patterson developed a business plan for the employees. KPMG did the valuation and prepared an initial set of account on behalf of the government. A real estate valuation was performed by Easton Douglas & Co. of the two buildings on Duke Street, which have 63,000 square feet. Legal services provided by Dunn, Cox & Orrett for the incorporation of Jamaica Printing Services Ltd to take over the operations of the Government Printing Office.

The privatization concept was an employee buyout, where the employees would be able to lease the equipment and the real estate for a set period. Once the employees realized that the plan was to transform them into owners, they were very cooperative. Although the final closing has not taken place, the employees are presently operating the facility on their own. This operation still faces considerable difficulty and requires additional support. The Patterson & Co. business plan turned out to be unrealistic, according the employee-owners. They are continuing to function as the "government printer," with 95 percent of their business coming from that source. They do have competition from private printers now for the government work and it has been difficult to maintain their market share. They are saddled with very antiquated equipment, which with the exception of their offset section creates a slow turn-around on jobs. They have no bank financing and it is difficult for them to build up their inventory of stock, although they do have supplier credit from two sources.

We urge NIBJ and USAID to further support this company, as their bankruptcy would further prejudice employee buyouts.

### **Jamaica Railway Corporation**

These rail lines between Kingston-Port Antonio and Kingston-Montego Bay were originally used to haul bauxite. The Ministry of Public Utilities, Transport and Energy has been trying

to interest the private sector in leasing the line. The NIBJ had prepared a financial and economic study on the privatization of JRC, which apparently did not sufficiently address all the privatization options and issues. In the course of the various studies, the government was able to obtain concessional financing from France to inject capital into JRC over 1992-3. French consultants have now done an analysis of the operation. Private operators have made an offer for the lease/sale of the entire railway and the Montego Bay Omni Bus Terminus. NIBJ's role would be to assist in the evaluation and negotiation of the terms of the agreement.

#### **Grains Jamaica Limited**

This facility is owned 31 percent by NIBJ; 20 percent by JCTC; and 49 percent by Taylor-Cross, a foreign investor. Two valuations of the market value of the assets have been carried out; one by Price Waterhouse and one by Lee Clarke Chang, accountants. Taylor-Cross attorneys have disputed the proposed value of the shares and negotiations are ongoing.

#### **Jamaica Frozen Foods**

Baird & Henderson has provided a machinery and equipment valuation for this facility.

#### **Trans-Jamaica Airlines**

USAID should monitor assistance to this company carefully, as it appears there are plans to expand its operations/routes considerably prior to privatization. A business plan of the expanded operation as a part of the prospectus for the company's sale might be a useful element, but the actual expansion of the operations may cause it to become excessively loss-making and unsaleable. This company may have a good enough track record for a public offer, but there is pressure from local investors who want direct negotiations.

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**APPENDIX E**  
**A GENERIC SECURITIES COMMISSION: STRUCTURE, OBJECTIVES, OUTPUTS**  
**AND A WORK PLAN FOR TECHNICAL ASSISTANCE**

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This annex describes how a "generic" securities commission (SC) might be structured, the duties of its principal officers and departments, its objectives, outputs and the various activities necessary to attain these objectives, as well as a work plan which a technical assistance team might follow.

**A. Generic Organization Structure**

**BOARD OF DIRECTORS**

President: To be appointed

Directors: Invited from Private and Government Sectors  
with Proven Technical Qualifications and Integrity

**Superintendent of SC**

Division of Research  
and Development

Deputy  
Superintendent

Legal  
Division

Division of  
Financial  
Supervision

Division of  
Intermediaries  
Supervision

Regional  
SC Office(s)

**B. Description of Functions**

**Superintendent of SC**

- Plans, organizes, directs, coordinates and controls the operations of the SC;
- Initiates securities market development proposals for the Board of Directors;
- Enforces the application of rules and regulations as well as applies sanctions and penalties;
- Authorizes the establishment of stock exchanges;
- Proposes policies, regulations and rules for Board approval;
- Coordinates SC operations with privatization and banking reform activities.

**Deputy Superintendent**

- Assists the Superintendent in determining and executing policies;
- Directs, coordinates and orients the divisions of the SC.



### **Legal Division**

- Studies, analyzes and resolves all legal matters falling under the SC's purview.
- Participates with other divisions in the preparation of rules, instructions, licensing and listing manuals and communications to market participants; collaborates in the determination of policies of supervision, monitoring, controlling and investigation.

### **Research and Development Division**

- Advises the Deputy Superintendent regarding the development of the securities market with research, analysis, studies and proposal preparation;
- Prepares bulletins, special studies and publications;
- Participates in the determination of supervision, monitoring, and policy enforcement;
- Elaborates rules, norms, instructions, and manuals.

### **Division of Financial Supervision**

- Enforces the rules and regulations affecting the dissemination of information by issuers of securities, as well as those required for listing securities, and for private rating agencies.
- On and off-site supervision.

### **Division of Intermediaries Supervision**

- Enforces rules and regulations affecting intermediaries, trading practices, as well as stock exchanges, including collective investment funds;
- On and off-site supervision.

### **Regional SC Office(s)**

- The empowered representative of the SC wherever the regional offices are established.

## **C. Objectives, Outputs and Activities**

Following are the principal objectives, desired outputs and activities of technical assistance to help develop a securities commission to regulate and promote a securities market. Since this is a "generic" description of all that is necessary to make a securities commission operative, it includes certain activities and outputs which have already been taken up in the Securities Act legislation presently before Jamaica's Parliament.

We have indicated with a "+" below those steps already contemplated in the recently enacted Securities Act.

## **Objective 1: Promote the Development of the Securities Market**

### **Output 1**

- **Adopted legislative innovations consonant with financial innovations that will emerge from the securities market as it develops. The SC should establish a strategy of dynamic regulatory build-up.**

#### **Activity 1**

- **Advise the government on emerging financial innovations and the legislation necessary to insure investor protection while maintaining flexibility and regulatory restraint.**

### **Output 2**

- **Transparency and competitiveness in the securities market +**

#### **Activity 1 +**

- **Publicize rules, regulations and measures oriented to promote competition within and between stock exchanges.**

### **Output 3**

- **Securities market acts in synchronization with other major reform programs.**

#### **Activity 1**

- **Establish coordination procedures with the agencies in charge of privatization of state owned enterprises and reform of the banking system.**

## **Objective 2: Promote Competition and Transparency in Primary and Secondary Securities markets**

### **Output 1 +**

- **Regulation of the establishment of stock exchanges, including over-the-counter operations.**

#### **Activity 1 +**

- **Create access: assure the free entry of financial intermediaries and the freedom to set brokerage fees.**

**Activity 2 +**

- **Establish strict licensing standards for financial intermediaries based on capital adequacy, education, experience and ethics.**

**Activity 3 +**

- **Create competition between stock exchanges. Minimum capital and technological infrastructure levels must be established for the exchanges to qualify to operate. Compatible communications and information systems between the exchanges must be required in order to promote competition and achieve a unified securities market.**

**Output 2 +**

- **Rules for listing and trading securities.**

**Activity 1 +**

- **Authorize the listing of securities to be traded on a given stock exchange, based on compliance with the established listing rules. The SC should not qualify the riskiness of any security at the moment of listing, nor at any other time. It should be the market, through the private rating agencies, which rates the quality of securities.**

**Activity 2 +**

- **Establish trading rules which insure fair trading, prohibiting market manipulation and insider trading.**

**Activity 3 +**

- **Establish guidelines for different methods of trading, such as dealers acting as principals versus carrying out ordinary brokerage activities.**

**Activity 4 +**

- **Establish guidelines for standard settlement and clearing procedures, including the regulation of a central depository organization.**

**Objective 3: Establish/Enforce Regulations and Monitor Activities**

**Regulations should be aimed at promoting the development of the market, protecting investors, promoting the dissemination of information, and at insuring overall competition and transparency in primary and secondary securities markets.**

**Output 1 +**

- **An empowered SC operative in regulatory, monitoring and promotional activities**

**Activity 1 +**

- **The government empowers the SC by law to set regulations, to monitor investment activities, to enforce regulations and to sanction violations if necessary.**

**Objective 4: Protect Investors**

**Output 1 +**

- **Anti-fraud provisions**

**Activity 1 +**

- **Draw up general anti-fraud provisions and rules for safeguarding investors' funds and securities.**

**Output 2 +**

- **Licensed market participants**

**Activity 1 +**

- **Market participants such as brokers, merchant banks, custodial institutions, financial advisors and investment managers licensed. Criteria for licensing must include meeting minimum standards of education, experience and capital adequacy of market participants.**

**Objective 5: Disseminate Information**

**Output 1**

- **A developed information infrastructure**

**Activity 1**

- **Create access to information by establishing rules which insure that all concerned agents will have access to the same set of relevant information that will help them make investment decisions. Sanctions must be contemplated for the use of privileged information for their own benefit, which could adversely affect some market participants.**

## Activity 2

- Specify levels of information by setting rules to establish the kind and periodicity of reports, as well as the quantity and quality of information which the issuers of securities must provide, bearing in mind that the higher the level of information provided the higher the intermediation costs.

## Output 2

- Accounting standards

## Activity 1

- Require and enforce the use of internationally accepted accounting standards.

In general, a continuous flow of information from companies should be required with at least quarterly financial reports, and annual reports including externally audited financial statements (balance sheet, profit and loss statement and cash flow statement). Any relevant fact(s) that may materially affect the value of the company should be reported to the SC and made public.

## Output 3

- Private rating agencies

The creation of Private Rating Agencies should be encouraged to offer the investor independent credit assessment. The role of private rating agencies is an essential component of a truly private securities market in which the market itself values the quality of securities (risk-return) being issued and traded.

## Activity 1

- Require (by law) that issuers of securities must report the ratings given by at least two rating agencies on all securities issued.

## Activity 2

- Require the review of ratings on a continuous basis so that investors will always have access to the most recent evaluation of risk of publicly traded securities.

## Activity 3

- Establish strict enforceable rules governing the actions of the credit rating agencies, such as prohibition of the use of privileged client information for the agency's own profit.

#### Activity 4

- **Prohibit the SC from engaging in the rating of riskiness of securities. It must limit itself to making certain that the rating agencies are observing and are in compliance with the pertinent regulations.**

#### **Objective 6: Create Collective Investment Funds**

##### Output 1

- **An established institutional framework as well as regulations for the operation of collective investment funds.**

##### Activity 1

- **Create a simple system of regulation since collective investment funds typically become important market participants in the near-term development of a securities market. The system should entail only limited bureaucracy and should not be complex. As markets develop and experience is gained, more comprehensive regulation can be put in place.**

##### Activity 2

- **Register fund and investment managers: complete and accurate disclosure of material facts regarding the fund's organization and management, including the education and experience of its officers and directors, should be required.**

##### Activity 3

- **Materials filed to effect registration delivered to shareholders and to prospective investors.**

##### Activity 4

- **Adopt and issue regulations prohibiting false or misleading statements or concealment of material facts in connection with soliciting potential shareholders of the fund, with reporting to existing shareholders, and with any document filed pursuant to the registration.**

##### Activity 5

- **Adopt and issue regulations prohibiting any manipulation of the market price of shares to avoid loss to investors who might trade at inaccurate prices. Rules against insider trading must be considered at the appropriate time.**

#### **Activity 6**

- **Adopt and issue regulations requiring the disclosure of compensation arrangements for the fund's officers, directors and managers as well as other expenses to be borne by the fund (thereby reducing the value of the investment); the disclosure of conflicts of interest.**

#### **Activity 7**

- **Set general conduct of business rules which call for the creation of high standards of integrity and fair dealing in the interests of the shareholder, as well as the establishment of standards for fair selling practices for publicly traded shares.**

#### **Activity 8**

- **Establish regulations requiring periodic financial reports from funds setting forth the valuation of the fund's portfolio and the results of the fund's investment activities.**

### **Objective 7: Undertake the Appropriate Education and Training Activities**

#### **Output 1**

- **A fully qualified professional staff.**

#### **Activity 1**

- **In-country, in-house, and on-the-job training activities are carried out.**

#### **Activity 2**

- **Overseas training for technically qualified staff of SC**

**D. Illustrative Budget (year 1)**

	<b>INPUT</b>	<b>DESCRIPTION</b>	<b>COST (USD)</b>
<b>A.</b>	<b>Remuneration of Experts</b>		
1.	Senior Consultant: Financial Economist specialized in capital market reform and privatization	4 months (approx. 10 days/month)	110,000
2.	Consulting Company		
	-Chief Technical Advisor: senior expert in financial reform and institutional strengthening	12 months (resident in Kingston)	250,000
	-Legal Advisor	4 months	100,000
	-Accounting and Auditing Specialists	7 months	175,000
	-MIS Specialist	3 months	75,000
	-Institutional Organization Specialist in Regulatory Agencies	5 months	125,000
	-Training Specialists	3 months	75,000
	Sub-Total Remuneration		910,000
<b>B.</b>	Travel and living expenses for consultants while in Jamaica	Based on daily per diem and r/t airfare/US/Kingston	100,000
<b>C.</b>	Training (on-the-job and on-site training is implicit in A.)	Courses, workshops, seminars, internships abroad	90,000
	<b>TOTAL</b>		<b>\$1,100,000</b>

12.6



## **E. Preliminary Work Plan**

### **E1. Detailed Work Plan and Preliminary Training Program**

The first activity of the project should detail a preliminary work plan. This should be accomplished together with the SC management within 30 days of the project team leader's arrival. The work plan should also assign consultants for each topic area and should develop a detailed sequencing and staffing program. It should also develop a potential training and development program for the SC. The work plan and the training and development program should be refined and updated at key points of the engagement to steer the project in the right direction and to ensure that the objectives of the program are achieved.

### **E2. Review Legal and Regulatory Frameworks Governing Securities Markets**

As formal regulations cannot cover all possible practices, the SC should be empowered to establish rules and guidelines which may be more readily adapted to changing conditions. The objective of this task is to review the legal and regulatory frameworks governing securities markets and make recommendations where adjustments can be made in order to enhance the safety and soundness of the overall system, while providing mechanisms for timely adjustment to respond to changing market conditions.

This objective should be accomplished by analyzing the legal and regulatory frameworks to gain an understanding of the options available and to ensure that the strategy and recommendations proposed under this project are consistent with the strategic objectives of the GOJ with respect to securities markets.

### **E3. Assess the SC's Ability to Carry Out its Mandate and Develop an Action Plan**

The objective of this task is to forge a consensus among government officials regarding the role of the SC and its institutional capacity to carry out its mission as defined by the GOJ. This should be accomplished through working sessions with key government officials and senior personnel of the SC who must be in place before the initiation of the technical assistance. An important activity of this topic area should be the development of an action plan consisting of a series of priority action programs aimed at anticipating future problems/weaknesses which may arise and reinforcing basic strengths identified in the diagnostic phase.

### **E4. Review Organization Structure**

The objective of this topic area is to establish the organizational framework best suited to accomplishing the SC's mandate. The organizational structure should be driven by its institutional mission. Therefore, the mandate and strategy defined in the working sessions and the diagnostic phase should drive any modifications in the SC organizational structure.

This topic area should entail reviewing and making recommendations for necessary modifications in the organizational plan, the tasks of the organizational units, their authority and responsibilities and information flows. In addition to defining the general capabilities in this manner, the project team should also determine the structural implications of the various specific concerns, including information technology, operations and procedures, human resources, and other relevant areas. The main activities required are as follows:

- **Determine required organizational capabilities.** This activity is concerned with the identification of the organizational effectiveness criteria or capabilities, which are critical to the success of the SC. These criteria should be drawn from the diagnostic and from a supporting review of other available background material. Capabilities required by the SC might include:
  - Authority, autonomy, and accountability - presumably to the Ministry of Finance
  - Responsiveness, problem solving capability, and financial innovation capability (development role)
  - Technical assessment capability
  - Information technology capability
  - People management/motivation/human resources development capability
  - Off-site and on-site supervision capability
  
- **Determine required organizational structure and operations.** The purpose of this activity is to establish the most appropriate organizational structure in the light of understanding of the SC's mission, strategy and operating constraints defined previously. Following are static and dynamic aspects of the organizational structure and operations which should be important:
  - The tasks the SC should carry out in the conduct of its operations
  - The level of resources allocated to these tasks
  - The required organizational reporting structure
  - The division of responsibilities and authority
  - The nature of the decision-making process
  - The forecasted patterns of work-flow and the systems, policies and procedures involved
  - The flow of information and the communications systems and channels available
  - The planning and control of systems and standards
  
- **Design structure and information flows.** This activity should develop an appropriate structure for the SC. The organizational design should include dynamic and static features. The proposed structure should be reviewed with the SC's management, and an implementation plan should be prepared. This plan should be linked to the staff development and training program to ensure the successful implementation of the new organization.

- **Develop procedures and manuals.** The objective of the activities undertaken in this area should be to establish policies and procedures that govern off-site and on-site supervision. In the following section a possible approach to developing appropriate manuals and procedures as important elements of effective on and off-site supervision is described.
- **Define standards.** The laws and regulations governing securities markets cannot cover all possible supervisory situations. The SC therefore should establish guidelines to cover additional areas not dealt with in the overall legal and regulatory frameworks. The advantage of allowing the SC to establish these guidelines is that they could be readily adapted to reflect changing conditions in the securities market. The objective of this task is to define those areas for additional guidelines should be established and to assist the SC in formulating these guidelines and standards.
- **Develop off-site supervision procedures and manuals.** Off-site supervision involves reviewing and analyzing reports which intermediaries and companies submit regularly to the supervisory authorities. The results of prior examinations and information from market sources should also be reviewed as part of this process.

The consultants should help the SC define procedures and develop manuals that provide an outline of reporting requirements to guide supervisors as well as intermediaries and companies. These manuals should include policies and guidelines such as:

- which intermediaries and companies are required to report
- the frequency of reporting
- a copy of the forms and detailed instructions on how they should be filled out
- guidelines regarding consolidation, accounting standards, etc., for the preparation of the reports.

Procedures and manuals should also be designed to support computerized information systems that assist the supervisors in analyzing the information sent by companies and intermediaries.

- **Develop on-site exchange supervision procedures and manuals.** To assure disciplined and effective on-site inspection, the SC should develop and use a comprehensive manual containing guidelines and procedures. The objective of this task is to assist the SC in developing procedures and manuals. These manuals should also contain a statement of the objectives of the examination, a definition of the role of the supervision and the procedures to follow in an examination.
- **Develop procedures for managing problems.** The early identification of risks may be considered one of the most important objectives of the SC. Early detection can be made through careful monitoring to spot warning signs such as the delay in

the delivery of financial statements, delinquency, loss of rapport or communication with companies and intermediaries, downturns in specific sectors or in the economy in general, and other specific developments such as the illness or death of a principal, unexpected loan renewals, overdrafts, changes in inventory turnover, increases in payables, labor problems and natural disasters.

- **Develop a transition program.** A transition program linking training and development requirements should be developed to ensure the successful implementation of the new procedures.

#### **E5. Define Human Resources Development program**

To prepare the staff for its new responsibilities, extensive training is required which should include the following:

- **Conduct a needs analysis.** A needs assessment should be conducted to diagnose the manpower and development needs of the SC staff.
- **Define possible training options.** The possible training options should include duration and expense for each category identified as well as an analysis of the strengths and weaknesses of each option.
- **Design a two-three year training and development program.** The identification of objectives and outcomes for the training program should be accomplished through interviews with both SC management and employees as well as through carefully structured employee surveys.

The design activity should involve the identification and definition of the components of the training plan and should include the development of sample or model training curricula. Efforts should be made to encourage practical and targeted training. In addition, attention should be paid to the institutionalization of the SC training program and to the training of senior management (overseas, if necessary).

In addition to the formal training programs, the importance of on-the-job training must be stressed. As part of future on-the-job training, each supervisor should rotate through the different areas of the SC under the supervision of a senior supervisor, already trained by having worked closely with the specialists.

- **Implementation of the training program.** The implementation of the training program should include foreign internships for technically qualified senior members of the SC to gain hands-on experience in supervision and regulatory activities.

## **E6. Design Management Information System (MIS)**

The MIS should provide the basic framework for the acquisition of appropriate information technology, according to the strategic, operational and functional requirements of the SC. This topic area includes the following principal activities:

- Definition of target applications.
- Definition of computer system, hardware and software.
- Definition of MIS management structure.
- Definition of MIS implementation strategy.
- Definition of MIS requirements.
- Preparation of terms of reference to assist the SC in the incorporation of the requirements into a request for proposals for the acquisition of computer hardware and software.

## **F. Measurements of Success/Benchmarks**

### **F1. Securities Commission**

- Increased competition and transparency in securities market.
- Number of flexible, reasonable regulations established.
- Efficient information infrastructure developed: all users get timely information and all issuers report regularly and accurately.
- Operation sufficiently effective that technical assistance can be withdrawn, except for special assistance in the case of rapid development of new instruments and investment modalities.

### **F2. Jamaica Stock Exchange**

- Increased volume of transactions handled expeditiously.
- Decreased clearing and settlement times.
- Increased number of companies listed.
- Increased number of initial public offerings.
- Increased number of brokerages, individual and institutional investors
- Development of medium and long-term government and corporate markets, as well as different investment instruments such as CDs, junior debt, convertible securities, commercial paper—offering multiple options for investors and for companies to raise financing.
- Increased creation of collective investment funds.