

**Debt Management as a Tool of Economic Development -
Jamaica's Experience**

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Debt Management as a Tool of Economic Development Jamaica's Experience¹

Introduction and Overview

This paper reviews the evolution of Jamaica's debt over the past fifteen to twenty years and the efforts at managing the debt over this period, firstly to contain and then to reduce it to sustainable levels. The paper next looks at the impact of a burgeoning debt on economic and social indicators. The current status of the debt is then examined, focusing in particular, on the changing distribution of the debt portfolio between external and domestic debt. This is followed by a discussion of the present constraints on debt management efforts and proposals to achieving a development-oriented debt management strategy.

The paper is organised as follows: **Section I** describes the rapid accumulation in Jamaica's external debt and the severe debt difficulties that ensued. **Section II** reviews the debt management strategy pursued to ease the debt burden, highlighting the heavy reliance on interim cash relief through debt rescheduling from both private banks and donor governments. The impact of a high debt and debt servicing burden on the fiscal and external accounts are detailed in **Section III**. The constraints on economic development are then discussed. **Section IV** shows the significant progress made in containing external debt and the emerging problems of a large and growing domestic debt. There are also comments on the shift in debt management practices based on these developments and the focus on debt sustainability. Ideas for development-oriented debt management strategy conclude the paper.

Section I Debt Accumulation and Debt Overhang

'By allowing higher expenditures over a given period of time than would otherwise be possible, external borrowing may assist development by supplementing export revenues and foreign direct investment or it may smooth the impact of temporary shocks that reduce

¹ The views expressed in this paper are those of the author and not necessarily those of the Ministry of Finance & Planning.

consumption, and thus improve economic welfare by allowing for higher domestic incomes.²

The rapid accumulation of debt in Jamaica during the 1980's highlighted the policy response to a widening current account deficit in the face of the major oil shocks of the mid to late 1970's, rising world interest rates and falling commodity prices in overseas markets. The need for external financing was also driven by a large and persistent fiscal deficit which at the end of 1980 amounted to 17% of Gross Domestic Product (GDP).

Jamaica: Medium and Long Term External Public Debt Outstanding³
(In millions of US dollars, end of calendar year)

	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Official Creditors</u>	<u>1010.10</u>	<u>2838.60</u>	<u>3490.76</u>	<u>3021.14</u>	<u>2814.72</u>	<u>2710.17</u>
<u>Bilateral</u>	<u>466.60</u>	<u>1463.10</u>	<u>1994.97</u>	<u>1802.13</u>	<u>1717.82</u>	<u>1545.09</u>
OECD			1686.58	1614.42	1541.92	1397.48
Non-OECD			308.39	187.71	175.90	147.59
<u>Multilateral</u>	<u>543.50</u>	<u>1375.50</u>	<u>1495.79</u>	<u>1219.01</u>	<u>1096.88</u>	<u>1165.09</u>
IMF	309.30	693.20	358.41	223.54	141.02	114.35
IBRD			499.57	366.23	299.88	409.29
Other			637.81	629.24	655.90	641.45
<u>Private Creditors</u>	<u>856.70</u>	<u>748.40</u>	<u>661.65</u>	<u>430.75</u>	<u>369.69</u>	<u>317.88</u>
Commercial Banks	408.80	392.90	393.98	338.18	297.18	267.58
Other	447.90	355.50	267.67	92.57	72.15	50.29
Bonds	0.00	0.00	0.00	0.00	47.50	249.56
Total	1866.80	3587.00	4152.41	3451.89	3231.9	3277.7

Source: Bank of Jamaica

Recourse to foreign borrowing was easily facilitated during the mid-1970s, as the capital markets were flush with petro-dollars. From US\$688.0 million in 1975, Jamaica's external debt mushroomed to US\$1866.8 million at the end of 1980, an almost tripling of the debt. By 1985, the debt grew nearly another two-fold to US\$3587.00 before peaking at US\$4152.41 million some five years later.

No doubt the heavy reliance on external borrowing in the late 70s/early 80s was to supplement domestic savings in a bid to maintain living standards, stimulate economic activity and advance the

²Hassanali Mehran (ed.), International Monetary Fund, *External Debt Management*, Washington, D.C. 1985, p.5

³ Includes debts of Central Government, public entities and Bank of Jamaica

process of economic development. Moreover, as long as the imbalances in the external accounts were perceived as temporary, the pain of adjustment could be avoided and continued borrowing to sustain development could be justified.

Not surprisingly, accompanying the rapid growth in the external debt was a corresponding surge in Jamaica's debt service obligations. Between 1975 and 1985 Jamaica's debt service grew over four times from US\$83.0 million to US\$341.0 million. Exports, however, failed to grow as rapidly. As a result the debt service ratio (i.e. total debt service expressed as a percentage of total exports of goods and services) grew from 24% in 1980 to 58% in 1985. In 1975, Jamaica's debt service was a mere 7% of total exports.

Jamaica: Medium and Long Term External Public Debt Service Payments
(In millions of US dollars, during period)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<u>Debt Service Payments</u> <u>(before rescheduling)</u>	<u>791.95</u>	<u>755.3</u>	<u>756.64</u>	<u>666.95</u>	<u>656.70</u>	<u>661.00</u>
<u>Debt Service Payments</u> <u>(after rescheduling)</u>	<u>503.0</u>	<u>616.0</u>	<u>774.6</u>	<u>771.8</u>	<u>670.1</u>	<u>663.5</u>
Interest	285.0	258.0	299.2	258.1	258.6	292.3
Amortization	218.0	358.0	475.4	513.7	411.5	371.2

Source: Bank of Jamaica

Not only did Jamaica's debt grow substantially over the period 1980 to 1990 but the composition of the debt changed significantly also. In the 1970s and at the start of the 1980s, Jamaica's debt was owed predominantly to private creditors. Loans from private commercial banks accounted for 22% of the total debt outstanding at the end of 1980. Commercial credits accounted for a further 24% of the total debt. Overall, private creditors claimed 46% of Jamaica's total external debt.

By 1985, there was a pronounced shift in the debt structure as much of the debt outstanding was owed to multilateral financial institutions and donor governments and their agencies. Bilateral creditors accounted for the largest share of the debt with 40% of the debt outstanding. Multilateral lending agencies followed closely with a 38% share. Commercial banks accounted for only 11% of the total debt outstanding.

Jamaica: Medium and Long Term External Public Debt Outstanding
(As a percentage share of total external debt outstanding)

	<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Official Creditors</u>	<u>54.11</u>	<u>79.14</u>	<u>84.06</u>	<u>87.52</u>	<u>87.09</u>	<u>82.69</u>
<u>Bilateral</u>	<u>25.00</u>	<u>40.79</u>	<u>48.04</u>	<u>52.21</u>	<u>53.15</u>	<u>47.14</u>
OECD			40.62	46.77	47.71	42.64
Non-OECD			7.42	5.44	5.44	4.50
<u>Multilateral</u>	<u>29.11</u>	<u>38.35</u>	<u>36.02</u>	<u>35.31</u>	<u>33.94</u>	<u>35.55</u>
IMF	16.57	19.33	8.63	6.48	4.37	3.49
IBRD			12.03	10.60	9.28	12.49
Other			15.36	18.23	20.29	19.57
<u>Private Creditors</u>	<u>45.89</u>	<u>20.86</u>	<u>15.94</u>	<u>12.48</u>	<u>12.91</u>	<u>17.30</u>
Commercial Banks	21.90	10.95	9.49	9.80	9.20	8.16
Other	23.99	9.91	6.45	2.68	2.24	1.53
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Bank of Jamaica

The impact of this changed debt structure was to limit the scope of future debt relief, as multilateral debts were ineligible for rescheduling. Project financing, structural adjustment loans from the World Bank and balance of payments support from the International Monetary Fund were the main pillars of financial support during this period.

The rapid increases in the external debt in the 1970s and 1980s and the phenomenal transformation from a low and manageable debt service to a crisis of illiquidity by the early 1980s spoke to the urgent need for appropriate debt management strategies to contain the problem.

Section II. DEBT CRISIS MANAGEMENT AND DEBT CONTAINMENT

1. Debt refinancing and cash relief

Debt management strategy throughout the 1980s was largely predicated on the assumption that with economic stabilization and adjustment, Jamaica, over the medium term, would be able to grow its way out of its debt problem. It was envisaged that with the appropriate reforms and stimulus to the export sector, sufficient earnings would be generated to ensure the future capacity of the country to repay its debt. The focus was therefore to seek interim relief on debt service payments while implementing economic measures to promote economic growth. Rescheduling of commercial bank and bilateral debts became the centerpiece of Jamaica's debt management programme.

Between 1980 and 1985, three commercial bank reschedulings took place. Agreements were signed which effectively postponed principal payments falling due. Consistent with commercial bank practice, no relief on interest payments was extended. Multi-year reschedulings began in 1985 when commercial bank obligations falling due over a number of years were consolidated and payments deferred. Similar agreements were negotiated in 1987 and 1990. The rationale was that multi-year arrangements would allow sufficient time to elapse to improve the debt service capacity of the country.

The 1987 commercial bank refinancing package was a benchmark agreement for Jamaica. A provision was included whereby Jamaica's commercial bank debt could be converted to equity investments. Arising from this provision Jamaica launched its debt conversion programme in July 1987.

The launch of the debt conversion programme in 1987 added a new facet to debt management strategy. The programme was intended to achieve an overall reduction in the debt to commercial banks rather than short term cash relief. Commercial bank debt of US\$185 million, or approximately one-half of the total commercial bank debt was targeted for conversion from debt to equity.

In addition to debt reduction, a further objective of the debt conversion programme was to channel investment into priority areas of the economy. Specifically targeted were the export sector and employment generating activities. The hotel industry and export processing zones (Free Zones) were major beneficiaries under this programme.

Although most projects were directed towards the export sector, a few projects related to the social sector and the environment were implemented under the debt conversion programme. One such project involved UNICEF, which saw US\$4 million in debt converted to investment in special programmes, related to women and development, primary health care and children in especially difficult circumstances. A debt-for-nature swap led to the creation of a Trust Fund from which the interest derived was used to maintain two national parks.

While the refinancing of commercial bank debt and the debt conversion programme helped to ease the debt burden, the relief at best was only modest. Commercial bank debt accounted for just 10% of the total debt outstanding during the 1980s. Bilateral creditors, donor governments and their agencies, provided the major source of debt relief through the 1980s and into the 1990s. Between 1980 and 1985, bilateral creditors had increased their exposure in Jamaica by significant amounts and in the process their share of the total external debt had increased from 25% to 41%.

Jamaica undertook its rescheduling negotiations with bilateral creditors under the auspices of the Paris Club. This was an informal association of creditor governments and their agencies. Typically, such agreements allowed for the rescheduling of 100% of principal and interest payments falling due during a specified period, usually 12 to 15 months. This period normally coincided with the duration of an IMF-supported economic programme. In subsequent years, allowing for the rescheduling of previously rescheduled debt substantially increased the amount of relief available.

The debt service ratio prior to and after rescheduling is indicative of the effect of restructuring operations. The debt service ratio in 1980 prior to debt rescheduling (accrual basis) was 24%. Subsequent to rescheduling, the debt service ratio, based on actual payments to creditors, was 19%. By 1985, the difference between the debt service ratios on an actual and accrual basis had widened to 20 percentage points indicating the significance of rescheduling in providing debt service relief. On average between 1980 and 1989, the annual debt service ratio on an actual basis was 14

percentage points below the debt service ratio on an accrual basis. Over the period, Jamaica effectively succeeded in rescheduling some 30% of the gross debt service falling due. Despite this achievement, it should be noted that the average debt service ratio after refinancing of 40% for the period 1985 to 1989 was exactly the same as the average ratio before refinancing for the preceding five-year period.

Rescheduling, although providing short-term debt relief, only deferred payments to later years. Debt would eventually have to be repaid. Indeed with successive rescheduling, the amount of debt relief was diminishing. In addition, the capitalization of interest arising from bilateral rescheduling was contributing to the overall level of indebtedness.

Section III. IMPACT OF DEBT ON DEVELOPMENT

1. Impact on the Balance of Payments

The effect of the high debt and debt service burden was immediately visible in the balance of payments by way of the foreign exchange outflow required to effect debt payments. These high debt service ratios in the wake of increasing obligations and weak export performance is a key indicator of the substantial preemption of scarce foreign exchange resources to meet debt payments. Had Jamaica not engaged in rescheduling arrangements in the latter half of the 1980s some 60% of Jamaica's foreign exchange earnings would have been channeled into servicing debt.

The magnitude and direction of net flows are also a useful indicator of the impact of debt on the external accounts. Net transfers are the difference between official loan inflows and debt service payments. This indicator measures the extent to which resources are available over and above that required for the financing of total debt repayments. In effect, it measures the extent to which there is a net inward transfer of resources.

Jamaica: Total Debt Flows
(In millions of US dollars)

	<u>1980</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Net Flows	100	-42	-314	-299	-392	-280	-323
Disbursements	363	461	302	476	380	390	340
Total Debt Service	263	503	616	775	772	670	663
Imports of Goods and Services	1678	1789	1598	1947	2246	2794	2928

Source: Bank of Jamaica

Up to 1984, Jamaica experienced a positive net transfer, indicating that the outflow of foreign exchange to effect debt service payments was more than offset by new borrowing. The consequence of this was an increasing debt and debt service burden albeit a greater capacity to service debt. This trend reversed in 1985 with a net outward transfer of resources amounting to US\$42 million. Over the period, 1986 to 1990, Jamaica had an annual average net outward transfer of US\$320 million, equivalent to 13% of GDP, 30% of imports of goods and services, and 20% of export earnings. Significantly, some 70% of this net outward transfer was to multilateral financial institutions.

One effect of a net outward transfer is to reduce the overall size of the debt outstanding over time. Another effect, however, is to constrain the capacity of a country to import. The ratio of net transfers to imports gives an indication of the reliance on foreign resources to finance imports. On average, net transfers accounted for 5% of the share of total imports over the period 1980 to 1984. Concurrent with the net outward transfer of resources, in 1985 imports remained unchanged followed by an actual decline in 1986.

2. Impact on the Fiscal Accounts

The distribution of external debt by borrower category indicates that the Central Government, on average, accounts for some 80% of all debt outstanding. Central Government borrowing has a direct impact on the fiscal accounts. A comparison of fiscal years 1980/81 and 1985/86 indicates that total interest payments (domestic and external) by Central Government jumped from J\$251 million to J\$1397 million, an increase of over 450%. In terms of recurrent expenditure, this represents an increase from 16% to 42% by 1985/86.

The substantial share of recurrent expenditure accounted for by interest payments combined with a further substantial budgetary allocation for wages and salaries has meant a severe curtailment of the provision of services financed by government. Deep cuts in spending have not been confined to recurrent expenditure but have also included capital expenditure. Debt amortization as a percentage share of capital expenditure has increased from 20% in 1980/81 to 51% in 1985/86. At the end of fiscal year 1989/90, amortization amounted to 52% of total capital expenditure. This has continued to mount in subsequent years.

Debt is constitutionally the first claim on the fiscal resources of the government. The large share of total expenditure required for debt servicing has reduced the ability of the government to provide acceptable levels of public services, especially in the areas of health, education, housing and transportation. Capital expenditures on schools, health centres and hospitals declined to miniscule levels in the latter part of the 1980s and at the start of the 1990s. Recurrent expenditures have been generally inadequate to undertake even routine maintenance and rehabilitation. Capital expenditure for health declined from 10.4% of total public health to a low of 3.7% in 1985/86.

Section IV ACHIEVING A DEVELOPMENT-ORIENTED DEBT MANAGEMENT STRATEGY

A Second Debt Crisis?

From a historic high of US\$4152.2 million, the external debt has fallen markedly to reach a balance outstanding of US\$3277.6 million at the end of 1997. In terms of GDP, the external debt has fallen from 111% to 52% over the similar period. Jamaica's external debt service burden has also eased considerably. The ratio at the end of 1997 was 17% compared to 29% at the end of 1990 and 47.5% in 1987.

Jamaica: Debt and Debt Service Indicators
(In percentage)

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Total Debt/GDP	111.87	119.58	115.41	91.83	72.76	81.65	56.01
Total Debt/XGS	178.35	170.66	156.28	152.33	136.24	116.89	100.30
Debt Service Ratio (before rescheduling)	36.98	32.46	32.15	27.23	24.52	22.38	17.98
Debt Service Ratio (after rescheduling)	28.50	27.34	27.10	22.64	20.00	20.07	17.98
Interest Payments/XGS	12.55	11.27	10.39	8.42	6.96	6.51	5.81
Multilateral Debt/Total Debt	36.02	34.74	35.35	34.83	37.49	35.31	33.94
Floating Rate Debt/Total Debt	30.7	32.2	33.6	35.7	35.1	33.6	32.5
Concessional Debt/Total Debt	39.7	38.8	37.9	33.0	33.0	32.2	32.2

Source: Bank of Jamaica

Good progress has been made in reducing the substantial debt overhang and the huge external debt service burden. The years of debt rescheduling arrangements along with the debt equity conversion programme, and more prudent borrowing, have helped to contain one of the most pressing economic problems with Jamaica has had to grapple – the external debt.

Jamaica has not been alone in its efforts to contain the debt, as the donor community has also been involved. The governments of Canada, the Netherlands, the United Kingdom, and the United States of America were the principal benefactors in canceling debts owed to them by Jamaica. A total of US\$454 million was forgiven over the period 1990 to 1995. More recently in 1998, the UK government has forgiven debts of US\$12.4 million (7.4 million pounds sterling) under the terms of the Mauritius initiative.⁴

While there has been a gradual containment of the external debt, there has been an unprecedented surge in the growth of domestic debt. From relatively stable levels of J\$6 billion for the latter half of the 1980s, the decade of the 1990s began with the domestic debt at J\$10.0 billion. By 1994, the size of the domestic debt had increased almost five times to J\$49.1 billion. Between 1990 and 1994 domestic debt had grown at an average annual rate of 55%. The domestic debt has subsequently grown at an average of 27% per annum to a level of J\$101.6 billion at the end of 1997.

Jamaica: Public Internal Debt
(In Millions of dollars, at end of period)

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Securities	9,327.0	9,638.0	18,424.0	22,553.0	40,997.0	49,887.9	64,710.5	84,123.2
Treasury Bills	3,498.0	3,616.0	6,461.0	6,645.0	11,989.0	10,466.6	10,666.2	11,050.0
Local Registered Stock	5,829.0	6,022.0	11,962.9	15,908.0	29,008.0	38421.3	54,044.3	73,073.2
Bonds	249.0	280.0	336.1	1,572.0	1,984.0	2,068.5	5,866.7	10,618.8
Loans	393.0	266.0	266.0	266.0	6,141.0	7,594.5	7,126.6	6830.1
Total	9,969.0	10,184.0	19,026.0	24,391.0	49,122.0	59,4550.9	77,703.8	101,572.1

Source: Bank of Jamaica

⁴ The Mauritius mandate announced by UK Chancellor, Gordon Brown, at the Commonwealth Finance Ministers meeting in September 1997, speaks to canceling the remaining debt due to the UK from lower income Commonwealth countries provided they are committed to “pro-poor” policies, transparent and accountable government and sound economic policies.

The six-fold increase in public domestic debt was in part a consequence of a deliberately greater reliance on financing from the savings of residents vis-à-vis those of foreigners. Measures to improve the efficiency of public sector operations and streamline the accounting/financial framework of the overall public sector also explain the increase.

Another contributor to the growth trend was the phasing out of the Bank of Jamaica Certificate of Deposit introduced in November 1985 to assist the BOJ with its open market operations and the absorption of excess liquidity. However, given the nature of the overall financial and accounting arrangements of the public sector, the interest cost of issuing such paper in an environment of high interest rates was placing severe strain on the country's budgetary resources. Hence the stock of BOJ Certificates of Deposit was phased out over a one-year period ending March 1995. Local Registered Stocks which are Central Government liabilities replaced these securities, which did not constitute a part of the Central Government debt burden. Some \$1.0 billion in Local Registered Stocks were issued for this purpose.

In an effort to set a number of public sector entities on a path to financial viability, the debts of a number of parastatals were assumed by government, including the Jamaica Public Service Company Limited (JPS) and the National Water Commission (NWC).

While these developments would not immediately reflect in the external accounts, the impact on the fiscal accounts was glaring. Debt continues to absorb the major share of budgetary expenditure with a shrinking share of resources available for investment or for providing economic and social services.

Debt Sustainability

A country's debt is defined as being 'sustainable'⁵ if it is able to honour its payment obligations and at the same time maintain an acceptable level of growth. If so, then Jamaica's debt has yet to reach sustainable levels. Economic growth has been elusive for most of the 1980s and 1990's while debt continues to absorb resources at the expense of economic and social development.

⁵ See Eurodad Information Sheet, April 1996, *World Bank and IMF Underestimate the Debt Problem*.

If debt management is simply defined as ensuring the efficient use and control of borrowed funds then, by implication, it suggests two broad activities. Firstly, that the ability to repay must be ensured through the efficient use of borrowings. Secondly, that by effective 'control', the decisions regarding the level of debt accumulation must be such to ensure that the resulting levels of debt are sustainable. Debt management must be integrated into overall macro-economic policy.

Given the experiences of the past 18 years, debt management must now focus on the sustainability of the entire debt portfolio, both external and domestic. With the emergence of the debt crisis in the 1980's and the threat to the international financial system, debtors and creditors alike were concerned, for good reason, with external debt. However, over time, with the improvement in many countries external debt indicators, save for many of the world's poorest, the crisis of debt has been considered over. The progress in containing external debt has largely obscured the deteriorating status of internal debt and the continued constraints on growth and development.

Achieving sustainable levels of debt requires that overall borrowing must be kept within prudent levels and secured on the best terms available. Specific debt indicator targets must therefore be set for both external and internal debt. During the period 1990 to 1995, Jamaica experienced a steep decline in the value of its currency vis-à-vis the US dollar. The exchange rate moved from US\$1.00/J\$6.50 to US\$1.00/J\$39.80. While the external debt was declining in US dollar terms, the depreciation of the domestic currency was translating into increased debt charges in the fiscal budget. Currency depreciation added roughly some 35% to the cost of external debt charges in the budget during this period. Thus, the traditional indicators, the debt to GDP ratios and the debt service ratio, linked as they are to balance of payments variables masked the growing fiscal burden of the debt.

By international standards, Jamaica's external debt is already at sustainable levels. Jamaica's debt service ratio, at 17%, is already below the World Bank benchmark of 20% to 25%; while the other key indicator, the net present value of debt (NPV) to exports, at 97% in 1996 is significantly lower than the established range of 200 to 250%. At the same time, Jamaica has targeted a level not exceeding 20% for its external debt service ratio over the medium term. Similar targets must be set for domestic debt within the framework of the fiscal accounts.

One of the fundamental tenets of debt management is that borrowings should be used for productive investment so as to ensure the future capacity of the country to meet its obligations. However, in addition to this, debt management can also be concerned with whether the sectors to which borrowed resources are directed are consistent with the sectors targeted for national development.

While data is not available for domestic debt, an analysis of the composition of the external debt by economic sector gives some indication of the sectors to which external resources have been channeled in previous years. With the exclusion of the sector 'Balance of Payments Support', the five sectors receiving the largest share of overseas loan funds have been 'Agriculture, Fishing and Forestry', 'Housing, Urban and Rural Development', 'Energy', 'Industrial Development', and 'Multi-sector'⁶. However, the social sector, such as health and education, received a combined share of a mere 2.7% of the total debt outstanding. The share of debt allocated to housing and transportation was, on average, 6.4% and 1.5% respectively over the period 1990 to 1997.

A comparison with the government's capital budget allocation by sector indicates that the sectoral share of the expenditure was somewhat different from the sectors that benefited from external borrowing. Allocations in the budget have largely been directed to education, health and roads, although it has been difficult to ascertain the distribution between capital and recurrent expenditure. This suggests a possible disjoint between the investment plans of the government and the areas to which external funds were allocated. The problem has been described aptly in this fashion; "We are trapped into executing projects that the multilateral and bilateral agencies consider to be the 'in' projects at a given point in time."⁷ The issue for debt management is that financing must not only satisfy sound economic criteria but also be consistent with the development goals of the country.

⁶ These are loans primarily to finance food and commodity imports.

⁷ Comments by the present Minister of Finance, Dr. Omar Davies, in his former capacity as Senior Lecturer, University of the West Indies, in *The Debt Problem in Jamaica*, Omar Davies (Ed.), UWI, Monograph #1.

Composition of External Debt by Economic Sector

In percentage (%)

	1990	1991	1992	1993	1994	1995	1996	1997
Agriculture, Fishing & Forestry	7.1	7.8	7.6	7.7	7.9	7.9	7.9	7.3
Air & Maritime Transport	3.3	3.2	3.1	3.0	1.9	1.7	1.7	1.5
Balance of Payments Support	33.8	33.4	34.4	35.2	34.0	30.8	27.6	24.2
Education	2.0	2.0	1.9	1.8	1.8	1.8	2.0	2.2
Energy	5.5	6.0	5.5	6.3	6.5	6.8	7.1	6.5
Finance	1.6	1.6	3.0	3.5	4.8	5.6	9.0	10.7
Ground Transport	2.0	1.6	0.8	0.5	0.6	0.5	0.4	0.3
Health & Social Welfare	0.8	0.8	1.0	1.4	1.7	2.1	2.3	2.5
Housing, Urban & Rural Dev.	6.4	7.0	7.4	8.2	9.1	9.9	10.2	9.7
Industrial Development	4.6	4.1	3.5	4.2	4.0	5.2	5.2	4.7
Information & Technology	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Infrastructure/ Roads	2.5	2.5	2.5	2.6	2.8	3.0	3.2	3.1
Manufacturing	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Mining & Quarrying	1.5	1.3	1.0	0.7	0.7	0.7	0.7	0.7
Multi-sector	15.0	14.0	13.6	12.0	11.5	11.4	11.0	10.3
Public Administration	4.4	4.4	4.3	4.0	3.8	3.6	3.4	9.3
Telecommunications	3.5	4.4	4.4	4.4	4.5	4.3	4.1	3.2
Tourism	0.6	0.6	0.6	0.4	0.4	0.4	0.3	0.2
Water Supply & Drainage	2.0	2.2	2.2	2.7	2.9	3.1	3.2	3.3
Other	3.0	2.9	2.9	1.0	0.2	0.1	0.0	0.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance (CS-DRMS Report 671)

As part of its overall debt management strategy Jamaica continues to actively participate in international discussions concerning debt. Jamaica, as early as 1987, brought to international attention its concerns about lower middle-income countries which were highly indebted to multilateral institutions and therefore neither qualified for Brady-type debt reductions nor relief under Toronto terms. This concern has become more widely shared since the mid-1990s as many countries, having experienced a decline in aid flows and being unable to secure funds from the capital markets, have increasingly relied on flows from multilateral sources. Nonetheless, Jamaica with the exception of the Houston terms rescheduling arrangement, which provided further incremental relief on bilateral debt, has remained largely on the periphery of many international debt initiatives.

Jamaica continues to forge ahead to bring its debt to sustainable levels. In addition to implementing debt management strategies, Jamaica has undertaken widespread reform of its economy through

trade liberalization, dismantling barriers to capital movements, relentlessly pursuing an anti-inflationary path and greater fiscal discipline. An indication of the success of Jamaica's effort has been the favourable assessment of its creditworthiness by one of the leading rating agencies, Moody's, and the re-entry of the country into the world capital markets. However, a high price has been paid in terms of economic and social development. The 1990's may well be considered the lost decade for economic and social welfare in Jamaica.

Debt management efforts must, perhaps even more so now, be supported by economic policies which seek to promote and attract investment and stimulate growth. Key sectors need to be targeted that generate income and create employment. Debt management has a role in identifying and directing resources to these priority sectors. The international community can also play a role through initiatives that recognize the efforts being made by many debt-strapped countries and assist in alleviating the pressing debt burden.

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