

PRIVATIZATION AND MONETARY DEVELOPMENTS IN JAMAICA -  
A PRELIMINARY ASSESSMENT

by

Mary M. Allen

Presented at the  
23rd Annual Conference of the Regional Programme  
of Monetary Studies

November 25-28, 1991  
held in Belize City, Belize

The views expressed in this paper are those of the author and do not necessarily represent those of the Bank of Jamaica.

## I. INTRODUCTION

A distinguishing feature of the production structure in many developing countries is the relative dominance of the public sector over the private sector. For some of these countries this situation is the result of their post-colonial evolution when the private sector was still premature. In the main, however, this was the result of the widespread acceptance of different variants of socialist ideologies. Within the Caribbean, that of the Latin American School of Thought. For whatever reason, it was generally accepted that the public sector could make a positive contribution in furthering economic development.

The economic systems which evolved in the Caribbean and Latin America in the decades following independence, therefore, patterned the centrally controlled economic system. The main characteristic of this economic form being the public ownership of productive resources and the central planning of economic activities to the neglect of market determined decisions.

The experience of the 60's and 70's revealed that while aiding social and economic development to some extent, the public sector incurs losses, contributes to budget deficits, earns low or negative rates of return and impacts negatively on the balance of payments. This realisation forced the governments of both the developed and developing

countries to reassess the role of the state in economic development. Developments in the international arena, particularly, oil shocks of the early seventies, declining terms of trade for the products of developing countries, stagnation in financial flows and severe debt service problems, underscored the need for a reduction in the size of the public sector and the promotion of greater private sector involvement.

Privatization refers to any transfer of activity from the public to the private sector. This could involve the shift of private capital or entrepreneurial expertise into a public entity. But, usually, the term refers to a transfer of ownership of public enterprises to the private sector.

The economic rationale for privatization is based on the view that private ownership and control is more efficient in terms of resource allocation than public ownership. Moreover, privatization is expected to provide: investment capital, a more efficient means of transferring technology, widened access to markets, management and entrepreneurial skills.

Private sector ownership and use of resources is one of the underlying tenets of the theory of market oriented economic development. In the ideal form, perfect competition, the market is assumed to comprise numerous private economic units (the private sector), whose economic decisions are

guided by signals from the market in equilibrium and the desire to maximise profit levels. Moreover, it is argued that in pursuing profit maximization the private sector also promotes national welfare, guided by the 'invisible hand'. It is within this context that privatization policies were embraced in the 1980s as a means of reducing the size of the public sector, reducing the drain on resources and increasing the level of domestic savings. It was also a means of increasing private sector involvement, but-moreso to achieve growth through reliance on market impulses.

Outside of the socialist economies of Europe, privatization policies have been adopted by various countries, from major industrial ones (the United Kingdom) to smaller economies (New Zealand) to the developing economies of Asia and Latin America. This paper reviews the privatization process in Jamaica since 1985 and assesses the impact of this process on the economy. The usefulness of an assessment of the post-privatization performance of the entity is acknowledged. The unavailability of data in this regard does not, however, facilitate this exercise. The focus in assessing the privatization impact will therefore centre on the possible monetary, financial, budgetary and balance of payments impacts.

## II. BACKGROUND

The socialist ideologies adopted by the Jamaican Government in the 1970s influenced the growth in the size of the public sector. The Government's commitment to income redistribution, for instance, led to an increase in its involvement in the education, housing, utilities and health sectors. The Government's socialist posture as well as its policies of reducing reliance on foreign investment did not engender private sector support. Overtime, therefore there was a reduction in private sector investment and an increase in government involvement. By 1980, the number of state owned enterprises numbered almost 400. This is an unofficial estimation by the Public Enterprise Division of the Ministry of Finance and Planning. Some of these are now inactive while some have been divested. The number now stands at approximately 200.

By the early of 1980s it became evident that an adjustment effort was required to address the financial and structural imbalances in the economy. With the support of the International Monetary Fund and the World Bank, Jamaica therefore embarked on an adjustment programme in 1981. The core of this recovery programme focused on the need to broaden the economic structure allowing for increased private sector activity.

Within the context of private sector led development, the government embarked on a programme of market-oriented export-led growth. It was expected that the overall character of the economy would change if additional growth each year was dominated by private sector activity. The success of these policies was, however, hampered due to a contraction in the bauxite/alumina industry, declining terms of trade, difficulties in obtaining foreign financing, and increased debt service payments brought on by the bunching of external debt payments and domestic exchange rate adjustments. These factors served to increase public sector demand for domestic financing at the expense of the private sector.

By 1984, the adjustment efforts had to be intensified. Within this context, a reduction of the overall public sector deficit was called for. Attention was directed at the public enterprise sector with the initial view to improving management practices and pricing systems. To this end, measures were introduced in 1984 which resulted in an increase in the price of many public services notably, water, electricity and telephone rates. This allowed the enterprises and the wider public sector to accommodate the cutback in loan inflows during this period.

Following the strategies to improve the operations of the enterprises, the government announced the intention, in 1985, to divest some of the assets of the state. This was

considered as an additional means of reducing the budgetary outflows to the public enterprises.

### III. GOVERNMENT OF JAMAICA PRIVATIZATION PROGRAMME 1985-1991

The period between 1981 and 1982 saw the divestment of three public sector enterprises. These divestitures were conducted by the Divestment Committee, formed in 1981 by the government. In spite of these initial divestitures, 1985 marks the beginning of the first phase of a more organized and dedicated privatization programme.

The impetus of the programme came out of conditionalities embodied in the agreements of various multilateral loans particularly the Structural Adjustment Loans. This motivated the decision by the government in 1985 to reduce the size of the public sector. Subsequently, Cabinet approved a number of entities for divestment. Responsibilities for the implementation of the programme fell to the reconstituted Divestment Committee. The National Investment Bank of Jamaica (NIBJ) was asked to provide technical assistance.

During the period 1985-1991, thirty-nine of the entities approved for divestment, along with several agricultural and developmental properties were transferred to the private sector. These transfers took the form of leases, Stock Exchange placements, employee share offers, the sale of shares for unlisted entities and asset sales. With the exception of some entities whose government share holdings



were sold under private treaty, most of these divestitures were effected through public offerings.

In addition to the Divestment Committee, privatization exercises were conducted by the National Hotels and Properties (NHP), Factories Corporation of Jamaica (FCJ), the Agricultural Development Corporation (ADC) Group of Companies and the Ministries of Agriculture and Construction (Housing). Data on the total divestments effected by these agencies are incomplete. However, an enumeration of the divestitures carried out through the NIBJ, NHP and to a lesser extent the ADC Group of Companies and Factories Corporation, is provided in Appendix-1.

In addition to the entities listed in Appendix 1, the following divestitures were effected by the Government during the first phase of privatizations:-

- the divestment of the Frome and Monymusk Sugar Companies through a management contract with Tate and Lyle;
- the closure of the Jamaica Omnibus Service and the privatization of its functions to minibus operators;
- the contracting out of street cleaning and various hospital services to private operators;

- the privatization of Banana Board and Banana Export Company;
- the partial divestment of public share offer of the National Commercial Bank (NCB) and Cement Company of Jamaica, and
- partial divestment of Workers Savings and Loan Bank by public tender.

The privatization efforts of Phase 1 resulted in the sale of most of the entities approved for sale by the Cabinet in 1985. These divestitures led to a more broad based equity structure for a number of entities particularly for those placed on the stock Exchange. (Refer to Appendix 3.) Other positives noted, 1/ are that, uncommon to most developing countries, the extensive divestitures effected so far has been effected without any significant loss of jobs. Moreover, there has been a consequent increase in employment in the tourism and agricultural sectors. Additionally, it was found that because the relatively low cost leasehold method of privatization was used for a number of properties, it facilitated early expansion programmes.

---

1/ Professor Carl Stone, The Daily Gleaner, (November 11, 1991), Kingston, Jamaica.

The leasehold method is used by the Government to facilitate early improvements by the purchaser. However, it has been found that in some cases, involving the divestment of hotels, the improvements effected were minimal. Therefore, in using this method of divestment the government may be underpricing its assets, since the lease income is not commensurate with future income forgone particularly in the case of hard currency earners.

It has also been noted by the NIBJ that of the entities privatized, only three were profitable while the others had represented a drain on the fiscal budget. Whereas the magnitude of the drain has never been calculated fully, a 1986 study concluded that the net revenue flows of the first phase would amount to approximately J\$11.0 million per annum while income foregone would amount to only J\$0.89 million per annum. The unavailability of data prevents the verification of this statement. It can however be noted that inflows for the entities sold by the NIBJ (J\$1,256.4 million) and NHP (J\$882.2 million), during phase one of the programme realised over J\$2,138.6 million, excluding annual lease payments and inflows from the other agencies previously mentioned.

Phase 2 of the privatization initiative began in June of 1991. Commitment to this phase was announced in the context of a strategy to achieve growth and development within a liberalised economy. Other factors influencing this

decision include the success of phase one of the programme and the need to increase operational efficiency in public enterprises and so reduce the drain on the government budget. Widening the base of ownership and equity participation in the economy was another motive. It is also felt that the desire to satisfy conditionalities attached to multilateral assistance was a significant factor motivating the decision to continue the policy of privatization. The government's commitment to the Enterprise For The Americas Initiative, may also be a motivating factor. Within this context it is important to note that the USAID will be underwriting some of the expenses associated with this phase of the privatization exercise.

To enlist confidence in the programme and to assure its successful implementation, the following principles were outlined by the government:-

- Public announcement of entities to be privatized.
- Use of market economic valuation in establishing the disposal price.
- Arms-length transactions, with equal opportunity given to all except where special foreign exchange requirements are a feature of

privatization or where special arrangements are being made for employees.

- Public announcements upon the privatization of an entity.

The methods of sale will include sale of shares and assets or lease of assets. All transactions are to be conducted through public offers, except under the special circumstances mentioned above. So far government ownership in a number of entities has been transferred to the private sector via private treaty. More recent cases include Telecommunications of Jamaica, National Commercial Bank, Wyndham Hotel and West Indies Glass. Various arguments have been put forward by the Government, in support of the modality employed. The main one being the country's financial requirements at the time of sale. Public opinion has nevertheless been negative, as it is felt that these divestitures could have been effected in a more democratic way.

As the central implementing agency the NIBJ has the responsibility of conducting privatization in accordance with the objectives and principles governing the process. The Secretariat is to comprise a team led by NIBJ personnel, including officers from appropriate ministries and selected external consultants. The responsibilities of the NIBJ range

from the preparation of the prospectus on the entity to be divested, negotiating with selected applicants, recommending the chosen applicant for Cabinet approval, and effecting the transfer of the entity to the private sector.

Sixty-seven (67) entities are slated for divestment during the second phase of this programme. (Refer to Appendix 2.) Thirteen (13) of these entities have been advertised and their sales are currently being negotiated, while data collection exercises are being conducted for seventeen (17) others. The NHP, ADC Group of Companies and Factories Corporation will again have responsibilities for entities within their portfolios.

An assessment of the achievements of the current phase of the programme could be premature at this time. The focus of the following section will therefore relate to phase one of the programme.

#### IV. ECONOMIC IMPACT

This section analyses the possible influence privatization had on the economic process during the second half of the 1980's. The examination centers on the likely, monetary, financial, fiscal and balance of payments implications associated with the process.

##### (i) Budgetary Impact

The analysis here, will narrowly focus on the possible impact of privatization on the budget, in the short or long-term based on its function as a source of financing and through its impact on the current operating balance of the public enterprise sector.

The period of accelerated privatization records a significant reduction in the overall deficit, as shown in the table which follows.

TABLE 1

#### PUBLIC SECTOR BALANCES (J\$mn)

	<u>Selected Public Entities Balances</u>	<u>% GDP</u>	<u>Overall Public Sector</u>	<u>% GDP</u>
1985/86	-138.7	-1.1	-1653.5	-13.2
1986/87	243.8	1.7	-809.8	- 5.6
1987/88	310.2	1.9	-883.4	- 5.4
1988/89	-663.6	-3.6	-2473.1	-13.4
1989/90	-275.6	-1.3	-949.4	- 4.4
1990/91*	175.0	0.6	-526.3	- 1.9

\*Revised Programmed

Source: Ministry of Finance & Planning and  
IMF Staff Estimates

The data shows that the overall public sector balance fell from minus J\$1653.5 million in FY 1985/86 to minus J\$526.34 million in FY 1990/91. The dramatic counter trend worsening of the deficit in FY 1988/89 is reflective of the impact of the September 1988 hurricane.

Table 1 reveals that there is a positive correlation between variations in the operating balance of public sector entities and that of the overall public sector. The data shows that the improvement in the current balance of the public sector entities in FY 1986/87, 1987/88, 1989/90 and 1990/91 was reflected in improvements in the overall public sector balance in those years. This may be a reflection of the improved performance in some of the public entities, namely NWC, JPS, and JTC, which resulted in some cases from the implementation of more cost related pricing systems, as well as improved management and financial practices. The resulting improvement in the operations of the entities involved, suggests that efficiency improvements through management and not necessarily by ownership transfer may be indicated. This may be especially valid in countries where public opposition to privatization is strong.

Technically, the proceeds of divestment are not treated as a revenue item since it is not directly related to on-going economic activity. Treatment as revenue gives a distorted picture of medium-term fiscal trends. In general,



the proceeds of divestment do not have a direct impact on the fiscal balance in the short run although there may be positive long run implications. The direct short-term impact of privatization is related to its function as a source of financing for the budget. Based on Ministry of Finance and IMF estimates, the financing provided through the divestitures of Phase I amounted to approximately J\$1806.6 million. The following table provides a breakdown of the financing provided between 1986/87 and 1990/91. This source of financing also has long-term implications for government expenditure as it is less expansionary and has no associated debt servicing. This is also important in terms of meeting certain performance targets set in relation to International Monetary Fund agreements. However, to the extent that privatization allows for a transfer of investible resources from the private to the public sector, it may, on the other hand, be reinforcing the previous excessive use of domestic financing which obtained in the monetary sector.

TABLE 2

PRIVATIZATION PROCEEDS (J\$mn)

1986/87	25.0
1987/88	435.8
1988/89	96.0
1989/90	586.2
1990/91*	663.6

\*Revised

Source: Ministry of Finance & Planning and  
IMF Staff Estimates

The following table shows that domestic financing as a percentage of GDP declined steadily between 1985/86 and 1990/91, the increased percentage share in 1988/89 is related to the impact of the 1988 Hurricane Gilbert.

**TABLE 3****FINANCING REQUIREMENTS (J\$mn)**

	<u>Overall Public</u> <u>Sec. Requirement</u>	<u>%</u> <u>GDP</u>	<u>Foreign</u> <u>Req.</u>	<u>%</u> <u>GDP</u>	<u>Domestic</u> <u>Req.</u>	<u>%</u> <u>GDP</u>
1985/86	1653.5	13.2	857.4	6.9	796.1	6.4
1986/76	922.7	6.4	-22.5	-0.2	832.3	5.8
1987/88	1385.0	8.5	982.8	6.0	-99.4	-0.6
1988/89	2854.6	15.5	1389.7	7.5	1083.4	5.9
1989/90	1631.2	7.4	648.6	3.0	300.8	1.4
1990/91*	1287.1	4.6	903.3	3.2	-377.0	-1.3

\* Revised Programmed

Source: Ministry of Finance & IMF Staff Estimates

It can be seen that between 1985/86 and 1990/91 domestic financing requirement as a per cent of GDP fell from 6.4% (\$796.1 million) in 1985/86 to -1.3% (minus J\$377.0 million) in 1990/91, despite a hurricane-related counter-trend reversal to 5.9% (J\$1083.4 million) in 1988/89. The table reveals that although the absolute level of actual foreign financing requirement did not decline, as a percent of GDP it fell from 6.9% in 1985/86 to 3.2% in 1990/91.

Prior to 1985/86 the measure of privatization proceeds was treated as a revenue inflow to the budget, and

not as a financing inflow. By this measure the overall public sector revenue position and therefore the overall balance reflected an improvement. By yielding this improvement in government liquidity, privatization allowed for the appearance of adjustment as it showed the deficit at more improved levels. This served to postpone real economic adjustment efforts.

(ii) Monetary Impact

For the most part, the period up to 1985 was highlighted by the distortions which existed in the allocation of financial resources between the public and the private sector. This distortion was facilitated by monetary policies effected through a number of direct controls, namely: credit ceilings, cash reserve and liquid asset ratios, and prescribed interest rates.

It was expected that privatization would reduce the public sector's need for domestic financing thereby serving to reduce the distortions in the allocation of credit. The allocation of credit to the public and private sector between 1980 and 1991 is shown in Table 4 following:

TABLE 4

	<u>DOMESTIC CREDIT ALLOCATION (J\$MN.)</u>			
	<u>PUBLIC</u> <u>SECTOR</u>	<u>PERCENTAGE</u> <u>SHARE</u>	<u>PRIVATE</u> <u>SHARE</u>	<u>PERCENTAGE</u> <u>SHARE</u>
1980	1635.7	62.22	872.3	34.78
1981	2380.8	66.57	1195.8	33.43
1982	2724.1	63.07	1594.8	36.93
1983	3749.0	64.87	2030.0	35.13
1984	3856.8	61.34	2284.5	37.20
1985	3828.4	62.80	2412.6	38.66
1986	4847.5	62.27	2937.5	37.73
1987	4407.3	52.97	3913.5	47.03
1988	2988.8	37.91	4895.6	62.09
1989	2304.3	26.76	6305.8	73.24
1990	1436.5	16.36	7341.7	83.60

Source: Bank of Jamaica Statistical Digest

The data reveal that between 1986 and 1990, there was a significant reduction in the level of credit allocated to the public sector. The volume of credit declined by J\$2.39 billion or 62.4% from J\$3.83 billion in 1985 to J\$1.43 billion in 1990, concomitant with increased private sector credit. The volume of credit to the private sector increased by J\$4.93 billion or 204.6% moving from J\$2.41 billion in 1985 to J\$7.34 billion in 1990. This data also reflects the impact of the fiscal and public sector financial reform, and therefore a categorical statement cannot be made about the impact of privatization in this regard. Nevertheless, it is possible that privatization had a positive impact, since it served to reduce the level of public sector financing requirements, both external and domestic. The flows provided by privatization proceeds is estimated at J\$1,806.6 million for the period 1986/87 to 1990/91.

Where privatization involves a foreign purchaser, this may result in an expansion of the money supply. The resulting monetary injection will be equivalent to the Jamaica Dollar value of the foreign capital inflow arising from the transaction. Foreign capital inflows arising from privatization between 1987 and 1990 total US\$178.0 million (Refer to Table 6). The incompleteness of the data on foreign purchases precludes conclusive statements. However, it is clear that this has significant implications for monetary flows.

Divestment has the potential to operate as a monetary tool, as it helps to absorb liquidity from the system. This may help in reducing the need for open market operations which represent additional interest costs to the Central Government. Data on divestment proceeds between 1987 and March 1991 places the level of absorption at J\$2,138.6 million. This compares with net absorption of J\$2,501 million in Government of Jamaica Treasury Bills and J\$2,711 million in Certificates of Deposit in the corresponding period. However, the positive effect of this liquidity absorption through privatization may have been offset as Government may have used the proceeds to finance additional expenditure rather than sterilizing the funds consistent with macro-economic policy objectives. The following table records the levels of government expenditure for the period 1985/86 - 1990/91.

TABLE 5

	<u>GOVERNMENT EXPENDITURE (J\$mn) *</u>		
	<u>Current</u>	<u>Capital</u>	<u>Estimated Total</u>
1985/86	3252.0	578.9	3830.9
1986/87	3550.4	1138.0	4688.5
1987/88	4141.3	1160.6	5301.9
1988/89	5136.0	1719.6	6924.5
1989/90	6137.0	1532.6	6137.0
1990/91	7465.5	1842.4	9307.7

\*Provisional budgetary estimates

Source: BOJ Statistical Digest

The data reveals that government expenditure increased by J\$5,476.8 million or 143% between FY 1985/86 and FY 1990/91. The nature of government finance makes it difficult to identify the actual use of the proceeds of divestment. However, an indication is given based on the level of current expenditure in relation to capital expenditure during the period. Table 5 shows that the ratio of current expenditure to capital expenditure remained at 8:2 between 1985/86 and 1990/91 reflecting the dominance of current expenditure over capital expenditure.

A more desirable position would be reached if government sought to sterilize the proceeds until an appropriate capital investment project was determined. This would have reduced the short term negative impact on economic variables such as prices and the exchange rate. The proceeds of privatization represented a small share of total government

expenditure, between 1986/87 and 1990/91, being 0.53%, 8.22%, 1.39%, 9.55% and 7.13% in each financial year, respectively. Nevertheless, the monetary injection resulting from the increase in government expenditure may have had an expansionary impact on demand, fuelling price increases and exchange rate depreciation. Appendix 4 records the movement in some macro-economic indicators over the review period. Other more dominant factors such as the levels of domestic credit and savings, would have had a more significant impact on the changes recorded. However, to the extent that privatization allowed for increased government expenditure, it also played a part.

(iii) Balance of Payments

Privatization is expected to have a positive impact on the balance of payments through the capital account where the purchaser of the privatized entity is a foreigner. With the sale of assets to foreigners the inflow will be reflected as an increase in the direct investment account of the capital account. In relation to debt reduction, the balance of payments impact will also be reflected in improvements in the capital account, but via reduction in government's foreign debt service. Inflows of resources to purchase privatized assets also impact positively on the country's Net International Reserves.

The aggregatedness and incompleteness of the data on foreign related privatization makes it difficult to show precisely the impact on foreign capital inflows. However, available information indicates that approximately US\$178.0 million including US\$2.2 million in privatization related debt-swaps, has been credited to the country's accounts since 1987 and 1990. The following table shows that privatization related inflows represents an important segment of overall private foreign capital inflows. For instance, in 1987, 1989 and 1990 privatization inflows contributed significantly to the accumulation of Net International Reserves. It should, however, be noted that the accumulation of Net International Reserves underpins money supply growth and may therefore necessitate a counter-offset through reduced Net Domestic Assets.

TABLE 6

	<u>PRIVATE FOREIGN CAPITAL INFLOWS (US\$mn)</u>			
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Gross Private Long-term Capital Privatization*	65.70	51.40	133.20	199.40
Inflows	61.95	0.58	52.58	62.89

Source: BOJ Statistics

The table shows that between 1987 and 1990 privatization related foreign capital inflows, as a percentage of gross



long-term private capital inflows was 94.29%, 1.13%, 39.47% and 31.54% in each year respectively.

The positive impact of privatization inflows on the capital account, should however, be weighed against the long-term implications for the current account balance in terms of reduced foreign exchange receipts. Within the context of foreign exchange liberalization, it has implications for profit repatriation where foreign purchasers are involved. The negative impact of this may be less where local purchasers are involved as they are more likely to reinvest profits in Jamaica.

Privatization has resulted in positive developments within the tourism industry. Increased domestic private sector involvement in tourism has led to the development and strengthening of linkages within the economy, in relation to the agriculture and manufacturing sectors. The deregulation of the foreign exchange system is expected to increase the gains within the sector in terms of engendering confidence and attracting investment from both the local and foreign private sectors.

(iv) Financial Impact

The divestment process also facilitated the deepening of the financial system. Privatizations effected through the stock exchange resulted in the broadening of the

stock market base. It influenced the increased use of the stock market by other companies as a source of capital . The vibrancy in stock market activity since 1985 also served to increase competitiveness in the financial system.

Fifteen (15) of the thirty-nine (39) companies on the Jamaica Stock Exchange have been either totally or partially privatized by Government. These enterprises were listed to facilitate the partial and total divestiture of government's share holding. (Refer to Appendix 3 for the names of these companies.) Other reasons underlying the stock market listing of these companies included the need to acquire equity financing, to secure market positions and to facilitate a more broad based ownership of these entities through public participation.

The listing of state owned enterprises on the exchange may have engendered confidence in the stock exchange encouraging additional listing. Other factors, however, such as the double taxation on equity financing, as opposed to loan financing and an unwillingness on the part of business owners to reduce their control by opening up their companies to the public, continues to inhibit the use of equity financing. Nevertheless, the data in Table 7 reveals that activity on the stock market boomed between 1985 and 1990 relative to the preceding years. This upswing in trading coincided with the

period of accelerated privatization and it is believed that this process motivated the improvement in trading.

In assessing the impact of privatization on stock market activity the volume of trade in government related issues was compared to the total volume traded in 1985 to 1990. (Refer to Appendix 5.) The data reveals that between 1985 and 1990, the volume of trade in government related ordinary shares, represented 11.9%, 24.92%, 32.59%, 40.56%, 29.66% and 48.93% of total volume, respectively, in each year. Appendix 5 shows that trade in government issues during the period was quite impressive. The data reveals that with the exception of 1989, trade in government shares represented an increasing percentage of total volume traded between 1985 and 1990. This is an indication of the willingness of investors to participate in equity investments. It also reflects a level of private sector confidence in the economic prospects of Jamaica. This has significant implications in terms of access to low cost capital for viable investment projects.

TABLE 7STOCK MARKET ACTIVITY

<u>End of Period</u>	<u>Market Capital J\$mn</u>	<u>Volume Traded (mn)</u>	<u>Value Traded (J\$mn)</u>	<u>Index</u>
1980	124149	7390	5101	69.83
1981	224761	4198	3332	152.23
1982	315964	5542	10156	211.16
1983	359199	5185	9820	240.38
1984	697729	9744	26017	461.10
1985	1456590	37640	117146	941.50
1986	3085766	59252	374617	1499.87
1987	3468661	71877	399971	1515.09
1988	4290291	43522	136739	1439.22
1989	6228384	95202	516456	2075.85
1990	7321285	57960	230782	2539.36

Source: Jamaica Stock Exchange

Table 7 shows that capital represented on the exchange increased by J\$5,864,695 million or 402.6% from J\$1,456,590 million at the end of 1985 to J\$7,321,285 million by the end of 1990. Similarly, the index advanced significantly by 1039.49 points or 69.31% from 1499.89 points at the end of 1985 to post at 2539.36 points at the end of 1990. These achievements reflect the stock markets effectiveness as a medium for attracting savings. These savings represent funds which may otherwise have meant excess liquidity to be absorbed by open-market operations. The implications are significant, for the future development of the local capital market in terms of the availability of long-term financing and financial system competitiveness.

The impact of privatization on stock market activity would have been more significant, had greater use been made of the stock market to effect the sale of state owned enterprises. Many of the divested hotels for instance, represented sound investments which, with private sector management, offered scope for capital gains and dividends payments. The Government's financial requirements in a number of cases, however, necessitated sale via private treaty or for other reasons by public offers outside of the stock exchange.

V. SUMMARY/CONCLUSION

After decades of public sector intervention in the economic activities of Jamaica, it was realized that the state, in the main, accommodated inefficient public sector entities which had negative influences on the overall public sector balance. Towards the beginning of the 1980s international and domestic developments, worsened the country's budgetary and trade balances, underscoring the need for adjustments within the economy.

Privatization was seen as a strategy which would enable a redress of various financial and economic distortions within the economy, allowing for greater private sector involvement. The first phase of privatization spanned the period 1985-1991 and resulted in the divestiture of thirty-six (36) entities. In addition, one hotel and an agricultural concern were privatized through the debt-swap programme.

A second phase of privatization is expected to bring about the sale of another sixty-seven (67) entities. A detailed set of procedures have been worked out, based on the lessons learnt during phase one, to engender confidence in the programme. In addition, it is expected that the accompanying policies of deregulation will provide a more favourable economic environment and allow for freer entry of both domestic and foreign firms.

The completion of the first phase of the privatization process has resulted in the sale of a number of entities realizing approximately J\$2.0 billion and in the realization of some of the underlying objectives of privatization. These objectives include the reduction of the size of the public enterprise sector, efficiency gains in the tourism and communications sectors and more broad based ownership.

Unfortunately, the nature of government finance statistics does not allow for an accurate assessment of the actual benefits of the privatization efforts of phase one. Moreover, the time frame has been too short for an assessment of this impact to be made. Nevertheless, it can be said that the potential positive implications of privatization are significant in terms of actual proceeds as well as the potential increase in corporate tax inflows which can result. Further realization of these benefits are however dependent on the use of the proceeds of privatization. To maximise the gains from privatization, the proceeds thereof should flow into a special fund for capital investment, in strategic developmental areas.

Within the context of economic and social development there is still a role for the state, properly defined. This role should become more directional rather than interventionist. In this regard, the state would encourage

activities in strategic economic areas, or where necessary, in projects which it would divest thereafter, within a statutorily required period. Ensuring prudent financial and managerial practices in these entities would significantly enhance revenue flows, with positive implications for the overall fiscal outturn.

From a monetary perspective the analysis has shown that privatization can have both positive and negative impacts on the money supply, depending on the source of financing (local or foreign) of the privatized entity. Where the purchaser is from the local private sector, it may result in a contraction of the money supply if the divestment proceeds are sterilized. In cases of foreign sales, the resulting foreign capital inflow can increase the money supply. This situation holds serious implications in terms of monetary policy formulation. Further research is however required to understand the actual impact on the money supply and other macro-economic variables.

In terms of capital market development, it is necessary for Government to place greater emphasis on the use of the stock market as the primary medium of privatization. The impact on the stock market so far has been positive. Increased use of this market would encourage confidence in the exchange as a source of equity financing while influencing further capital market development.



The privatization process in Jamaica is still unfolding. The preliminary assessment presented in this paper has identified certain positive monetary and financial impacts. The full realization of the benefits associated with privatization is largely dependent on government's use of the proceeds of divestment. It is also dependent on the privatization modalities used in the transfer of entities. Data limitations in terms of budgetary treatment of privatization flows, the aggregatedness of the proceeds, that is, in terms of the breakout for foreign as opposed to local proceeds, the incompleteness and shortness of the time series have constrained the analysis. Further research is therefore necessary to determine the full impact of privatization on the economy.

ENTITIES PRIVATIZEDA. NIBJ (1981 TO 1991)

<u>Entities</u>	<u>Year</u>	<u>Method</u>
1. Versair Inflight Services	1981	Sale of shares.
2. Southern Processors Ltd.	1981	Sale of assets.
3. Midland Enterprises Ltd.	1982	Lease of assets
4. Rural Ice & Cold Storage Ltd.	1986	Sale of assets.
5. Hanover Spices Ltd.	1986	Sale of assets.
6. Jamaica Oxygen and ) Acetylene Limited ) Jamaica Carbonics Ltd.)	1986	Sale of shares (46.67%)
7. Hellshire Fish Farm Ltd.	1986	Sale of machinery and equipment; lease of land and building.
8. Zero Processing & Storage Limited	1986	Sale of assets.
9. National Commercial Bank	1986	Sale of shares (51%).
10. Grays Inn Properties	1987	Lease of properties.
11. National Hotel Supplies Ltd.	1987	Sale of assets.
12. Caribbean Cement Company Ltd.	1987	Sale of shares (72%).
13. Serge Island Dairies Ltd.	1988	Sale of shares (30%).
14. Port Antonio Marina	1989	Lease of assets.
15. West Indies Pulp and Paper Limited	1989	Sale of shares (83%)
16. Jamaica Gypsum & Quarries Ltd.	1989	Sale of shares; lease of land and building.

<u>Entities</u>	<u>Year</u>	<u>Method</u>
17. Jamaican Aqualapia Ltd.	1989	Sale of shares and assets.
18. Jamaica Frozen Foods Ltd.	1990	Sale of assets.
19. Jamaica Fisheries Complex	1991	Lease of assets.
20. Agricultural Mechanical Services	1991	Sale of assets.
21. Spring Plains/St. Jago*	1991	Lease and purchase of assets.

\* Being dealt with by both NIBJ and ADC/Agro 21

B. HOTELS DIVESTED BY NATIONAL HOTELS & PROPERTIES (1987 - 1991)

<u>Hotel</u>	<u>Date of Sale</u>	<u>Proceeds</u>		<u>Buyer</u>
		<u>US\$'M</u>	<u>JS'M</u>	
1. Royal Caribbean	1987	4.2	23.0	Local/foreign Joint venture
2. Casa Monte (Closed)	19/6/89	-	5.0	Local
3. Casa Montego	21/6/89	-	22.4	Local
4. Montego Inn	July 1989	-	2.7	Local
5. Inn on the Beach	12/7/89	-	7.0	Local
6. Wyndham Rose Hall	1/8/89	18.0	21.9	Foreign
7. Eden II (closed)	4/8/89	5.0	27.7	Local
8. Jamaica Jamaica	25/8/89	8.0	45.0	Local
9. Hedonism II	15/9/89	10.75	63.2	Local
10. Trelawny Beach	3/10/89	5.1	29.8	Local
11. Jack Tar	15/6/90	3.5	24.15	Local

<u>Hotel</u>	<u>Date of Sale</u>	<u>Proceeds</u>		<u>Buyer</u>
		<u>US\$'M</u>	<u>JS'M</u>	
12. Wyndham New Kingston	19/1/91	-	65.0	Local
13. Mallards Beach	March 1991	16.0	-	Local/Foreign
14. Americana Hotel	March 1991	<u>11.0</u>	<u>-</u>	Local/Foreign
	TOTAL	<u>*US\$81.55</u>	<u>336.85</u>	
			<u>*545.35 (J\$)</u>	
	TOTAL (J\$)		<u>882.20</u> <u>=====</u>	

C. FACTORIES CORPORATION OF JAMAICA (SINCE JANUARY 1991)

Approximately 19 acres of land at Paradise, Westmoreland.

D. ADC GROUP OF COMPANIES (SINCE JANUARY 1991)

1. Sections of Caymanas/  
Bernard Lodge - 3,038 acres
2. Thetford Farms,  
St. Catherine - 240 acres - mangoes
3. Amity Hall - 3,100 acres - rice
4. Part of Mitchell Town - 100 acres - aquaculture
5. Spring Plain/St. Jago - 1,000 acres - vegetables and  
orchard crops

E. TELECOMMUNICATIONS

Telecommunications of Jamaica - J\$120 million plus foreign exchange.

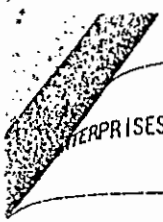
ENTERPRISES/ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT	MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
1. National Commercial Bank of Jamaica	Banking	39%	NIBJ		Sale of shares by private treaty to existing shareholders and other worker groups. Company listed on the Stock Exchange.
2. Shettlemore Property Montpelier Property	Agriculture	100% 100%	ADC Group Limited		Sale of Assets and lease of assets.
3. Certain Services In certain Hospitals	Public Service	100%	Ministry of Health		Sale of assets. Contract of services. Opportunity to increase number of players in private sector enterprise.
4. Government Printing Office	Public Service	100%	Ministry of Public Service		Contract of services Sale/lease of assets
5. Port Authority of Jamaica Boundbrook Wharf Bowden Wharf	Port Services	100%	Ministry of Public Utilities and Transport		Lease/sale of assets
6. Jamaica Soya Products Ltd.	Manufacturing	60%	Ministry of Industry, Production and Commerce		Sale of shares.
7. Highgate Foods Ltd.	AgriBusiness	38%	Ministry of Industry, Production and Commerce		Sale of shares

*PL 480*

ENTERPRISES/ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
Trans-Jamaica Airlines Ltd.	Air Transport	100%	Ministry of Public Utilities and Transport	Sale of shares
Milk River Hotel and Spa	Hospitality/ Tourism	100%	Ministry of Tourism	Lease of asset
Bath Fountain Hotel, St. Thomas	Hospitality/ Tourism	100%	"	"
Triguano Co. of Ja. Ltd.	Manufacturing	100%	Ministry of Industry Production and Commerce	Sale of assets
Woods Vinegar Limited	AgriBusiness	51.21%	Ministry of Agriculture	Sale/Lease of assets
Cocoa Industry Board properties)	Agriculture	Cocoa farmers	Ministry of Agriculture	Sale of properties on open market by Cocoa Industry Board.
Caribbean Cement Company Limited	Manufacturing	28%	NIBJ	Sale of shares to the public. Company listed on the Stock Exchange.
IK International Ltd.	Manufacturing	42% Ord, 100% Pref	Ministry of Industry, Production & Commerce	Sale of shares Company listed on the Stock Exchange.
Black River Upper Morass Development Company (BRUMDEC)	Agriculture	100%	NIBJ	Sale/Lease of Assets
Woodford Farms	Agriculture	100%	Ministry of Agriculture	Sale of Assets
JDP (Shares)	Manufacturing	52,221 shares	Jamaica Development Bank	Sale of Shares

ADVERTISED AND CURRENTLY IN NEGOTIATIONS

ENTERPRISES/ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
Air Jamaica Ltd.	Air Transport	100%	Ministry of Public Utilities and Transport	Dilution of Interest from Injection of new capital. (Special Committee appointed by Govt. to privatize airline. Chairman - Mr. Danny Williams.)
National Cassava Products Ltd.	AgriBusiness	100%	JAMPRO/JIDC	Sale/lease of assets
National Tool & Die Co. Ltd.	Manufacturing	100%	JAMPRO/JIDC	Sale of shares/assets.
Cornwall Dairy Development Ltd.	AgriBusiness	100%	Ministry of Industry, Production & Commerce JAMPRO/JIDC	Sale of asset and lease of assets.
Jamaica Public Service Company Ltd.	Electrical Utility	100%	Ministry of Mining and Energy	Purchase of Private Power, contract of power generation, share sale.
West Indies Glass Ltd.	Manufacturing	61.5%	Jamaica Development Bank	The two major users of the product have expressed Interest in acquiring COJ's shares. "A" Ordinary shares listed on the Stock Exchange.
Negril Cabins	Hospitality/Tourism	100%	Ministry of Mining and Energy	Sale of assets



ENTERPRISES/ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
9. Tanners (Shares)	Manufacturing	164,970 shares	Jamaica Development Bank	Sale of Shares
3. Dairy Industries (Shares)	Manufacturing	15,014 shares	Jamaica Development Bank	Sale of Shares
1. Tropiculture Limited (Shares)	Agriculture	45%	Jamaica Development Bank	Sale of Shares
2. Road Maintenance - Repairs of Public services wards, bridges etc.		100%	Ministry of Construction	Lease of Equipment. Contract of Services.
Postal Services and Package delivery	Public services	100%	Ministry of Public Utilities and Transport	Lease of franchise.
4. Minard Estate	Agriculture	100%	ADC Group Limited	
5. National Water Commission List including sewerage processing plants being finalised by NWC.	Water Utility	100%	Ministry of Public Utilities and Transport	Some sewerage processing plants already privatized. Lease of Assets. Contract of Services.
6. Airport Terminal/Donald Sangst International Airport	Air transport Services	100%	Ministry of Public Utilities and Transport	The government has received proposals to privatize the terminal at the Donald Sangst Airport. Build-Own-Operate Terminal.
7. Catering for Infirmaries (Island wide)	Public Services	100%	Ministry of Local Government	Sale/Lease of Assets. Contract of Services.
8. Parking Meters/Traffic Flow Monitoring	Public Services	100%	Ministry of Local Government	Contract of Services.
9. Local Government - Motor Vehicle Repairs	Public Services	100%	Ministry of Local Government	Contract of Services



ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT	MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
	Public Services	100%		Ministry of Local Government	Lease of "franchise"
Jamaica Pegasus	Hospitality/Tourism	59.8%		National Hotels & Properties	Sale of Shares
32. Forum Hotel Complex	Hospitality/Tourism	100%		Urban Development Corporation (UDC)	Sale of Assets
33. Oceana Hotel	Hospitality/Tourism	100%		Urban Development Corporation (UDC)	Sale of Assets
34. Montego Freeport Limited and its Subsidiaries:				Urban Development Corporation (UDC)	
- Seawind Beach Hotel Limited	Hospitality/Tourism				Sale of Assets
- Seawind Limited	Hospitality/Tourism				Sale of Assets
- Montego Shopping Centre Ltd.	Property management				Sale of Shares
- Montego Wharves Limited	Port services				Sale of Shares
- Montego Shipping Services Ltd					Sale of Shares
- Montego Stevedoring Limited					Sale of Shares
5. Grains Jamaica Limited	AgriBusiness	51%		NIBJ/JCTC	Sale of Shares
6. Caribbean Steel Company	Manufacturing	51%		NIBJ	Sale of Shares
7. Antillean Food Processors Ltd.	Manufacturing			Ministry of Industry, Production and Commerce	In receivership Sale of Assets
8. Victoria Banana Limited	Agriculture	100%		ADC Group Limited	Sale of Shares
Jamaica Bauxite Mining Company	Mining	100%		Ministry of Mining & Energy	Lease of Assets
9. PETCOM	<del>petroleum related</del>	<del>100%</del>		<del>Ministry of Mining &amp; Energy</del>	<del>Sale of Shares</del>
1. Petrojam (Refinery)	Manufacturing	100%		Ministry of Mining & Energy	Sale of Shares
2. Petrojam (Belize)	Manufacturing	100%		Ministry of Mining & Energy	Lease/Sale of Assets

PRELIMINARY ASSESSMENT

ENTERPRISES/ASSETS/ACTIVITIES	INDUSTRY/SECTOR	OWNERSHIP	SUBJECT MINISTRY/AGENCY	COMMENTS Incl. PRELIMINARY PROPOSED MODALITY FOR PRIVATIZATION
Ethanol Dehydration Plant	Manufacturing	100%	Ministry of Mining & Energy	Lease/Sale of Assets
Font Hill Farms (Luana)	Land/Agriculture	100%	Ministry of Mining & Energy	Sale of Assets
Negri Royal Palm Resort	Hospitality/Tourism	100%	Ministry of Mining & Energy	Lease of Assets
Police Services - Garage, Canteen.	Public Services	100%	Ministry of National Security	
National Rums Limited	AgriBusiness	100%	Ministry of Agriculture	Sale of shares
Jamaica Railway Corporation	Transportation	100%	Ministry of Public Utilities and Transport	Lease of Assets Lease of franchise
Standard Building Products Ltd.	Manufacturing	100%	Ministry of Industry, Production and Commerce (JAMPRO)	Sale of assets, including land and building.
Jamaica Export Trading Co. (JETCO)	Trading	100%	JAMPRO/Bank of Jamaica	Sale of Shares
Arliston Community Goods Ltd.	AgriBusiness	100%	Ministry of Industry, Production and Commerce. (JAMPRO)	Sale of assets
Eastern Banana Limited	Agriculture		ADC Group Limited	Sale of Shares
JR 'A' & 'C' class shares		29%		

COMPANIES LISTED ON THE JAMAICA STOCK EXCHANGE

COMPANIES

Ordinary Shares

1. Bank of Nova Scotia
4. Carreras Group of Companies
5. Canadian Imperial Bank of Commerce
6. Caribbean Metal Products\*
7. Courts Jamaica Ltd.
8. Desnoes & Geddes Ltd.
9. Dyoll
10. Gleaner Company Ltd.
11. Goodyear Jamaica Ltd.
12. Grace Kennedy Company Ltd.
13. Hardware & Lumber
14. Industrial Commercial Development  
Group of Companies
15. Island Life Insurance Company
16. Jamaica Banana Producers Association\*
17. Jamaica Citizens Bank
18. Jamaica Flour Mills
19. Kingston Ice\*
20. Kingston Industrial Works\*
21. Lascelles DeMercado Ltd.
22. Life of Jamaica Ltd.
25. Mutual Security Bank Ltd.
26. National Commercial Bank Ja. Ltd.
27. National Continental Corporation
28. Palace Amusement Company Ltd.
29. Pan Jamaican Investment Trust Ltd.
30. Jamaican Pegasus Hotel\*
31. Reckitt & Colman West Indies Ltd.
32. Salada Foods Jamaica Ltd.
35. Trafalgar Development Bank
39. Workers Bank\*

\* Indicates previous Government ownership or current involvement/ownership

SELECTED ECONOMIC INDICATORS

<u>End of Period</u>	<u>CPI Rate 1985/86 to 1990/91</u>	<u>Exchange Rate US\$1/J\$</u>	<u>Comm. Banks Wghtd Loan Rate %</u>	<u>Money Supply J\$mn.</u>
1981	-	1.78	16.25	99.6
1982	-	1.78	16.43	36.1
1983	-	3.30	17.02	118.3
1984	-	4.95	20.10	118.8
1985	22.2	5.50	29.20	206.9
1986	7.2	5.50	25.60	132.1
1987	8.2	5.52	25.19	146.7
1988	11.5	5.50	24.94	409.4
1989	20.8	6.50	28.15	223.6
1990	28.3	8.17	31.59	216.1

Source: Bank of Jamaica Statistical Digest and IMF staff estimates.

APPENDIX 5VOLUME TRADED (MILLION)

<u>STATE ENTITIES</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Cement	-	-	1.70	1.70	4.65	14.26
Steel	0.26	0.09	0.11	0.43	1.10	0.34
CMP	1.00	5.04	3.02	0.56	1.20	0.12
JBPA	1.10	3.10	6.28	4.79	5.06	4.13
KGN ICE	0.02	2.10	1.00	0.07	0.02	0.01
KIW	0.41	1.92	1.38	0.66	0.94	0.60
Freeport	0.49	0.92	0.08	0.04	0.11	0.02
MON ICE	-	-	0.04	0.09	-	-
NCB	-	0.17	9.40	2.18	5.30	2.80
TOJ	-	-	-	6.44	8.96	5.85
W. Terminals	0.14	0.07	0.02	0.05	0.197	0.04
GLASS	0.54	0.03	0.04	0.03	0.08	0.09
WIPP	-	0.07	0.07	0.02	0.08	0.05
WORKERS	<u>0.11</u>	<u>0.20</u>	<u>0.20</u>	<u>0.10</u>	<u>0.40</u>	<u>0.05</u>
TOTAL	<u>4.07</u>	<u>13.71</u>	<u>23.34</u>	<u>17.16</u>	<u>28.09</u>	<u>28.36</u>
STOCK MKT. VOL.	<u>34.00</u>	<u>55.0</u>	<u>71.6</u>	<u>42.3</u>	<u>94.7</u>	<u>57.96</u>
STATE ENT. SHARE (%)	11.9	24.92	32.59	40.56	29.66	48.93

## BIBLIOGRAPHY

1. de la Dehesa, 'Privatization in Eastern and Central Europe, ' Group of Thirty, Washington D.C., 1991
2. El-Naggar, Said, 'Privatization and Structural Adjustment in the Arab Countries', International Monetary Fund, 1989
3. Glynn, Lenny, 'Privatization Fever Hits Latin America', Finance & Development, March 1990
4. Israel, Arturo, 'The Changing Role of the State in Development' Finance & Development
5. Jones, Susan K., 'The Road to Privatization', Finance & Development, March 1991
6. Kalter, Eliot and Khor Hoe Ee, 'Mexico's Experience With Adjustment', Finance & Development, September 1990.
7. Lipton David and Sachs Jeffrey, 'Privatization Europe: The Case of Poland', Brookings Papers on Economic Activity, Brookings Institution, Washington D.C., 1990
8. Mansoor, Ali M., 'The Budgetary Impact of Privatization', Measurement of Fiscal Impact Methodological Issues, IMF, Washington D.C., 1988
9. Nankani, Helen B., 'Lessons of Privatization in Developing Countries', Finance & Development, March 1990
10. Robinson, Roger J., and Schmitz Lelde, 'Jamaica: Navigating Through a Troubled Decade', Finance & Development 1989
11. Veal, Sarah, 'Viva La Privatizacion!', World Link
12. 'Freeing Constraints on the Economy, The Drive to Privatize', Economic Impact 1986/3
13. 'Privatization Initiatives 1991', National Investment Bank of Jamaica, June 1991
14. 'Privatization Policy & Procedures', National Investment Bank of Jamaica, June 1991
15. Bank of Jamaica Statistical Digest
16. Various newspapers