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Aid Dynamics in Jamaican Development: Empowering Communities through Loans and Grants

Shinique Walters

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*Dedication—To the communities, thank you for sharing and not being afraid to voice your opinions and inspire others to be resilient. And to my Daughter Zindzi Samuels, Brother Sekou Walters, and friends, thank you for your unwavering support, love, and belief in this journey.
To My Mother, you continue to inspire me, Opal Davis (1960–2017)*

PREFACE

This book is inspired by the various communities I have engaged who try their best to create better futures with the available resources. Having worked closely with these groups, policymakers, and development agencies, I have seen firsthand the transformative potential—and the challenges—that loans and grants present.

In writing this book, I aim to offer a precise, grounded analysis of how aid can be more effectively aligned with community needs, fostering real, sustainable growth and encouraging greater development while encouraging greater resilience in the community.

I dedicate this work to all those who continue to believe in ensuring that the Jamaican community can reach its fullest potential.

Kingston, Jamaica

Shinique Walters

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CHAPTER 1

The Roles of Loans Versus Grants in Jamaican Communities

Abstract This introduction chapter provides an overview of the types of loans and grants that are available in Jamaican communities. The chapter explores the history behind both and clearly outlines the factors that need to be considered if a community decides to benefit from any loan or grants being offered. The section also speaks of the best ways that one can secure either a loan or a grant. The different types of grants such as educational and scholarship, social services, health, cultural and arts, agricultural, and entrepreneurship grants were also explored. A pictorial representation was also provided to guide potential recipients of the general idea utilized with accessing either a loan or a grant within Jamaica. Various theories were used that help to speak of how communities utilize a loan or grant to build their community; these theories include the social capital theory, which speaks of the value of networks and the relationship in facilitating cooperation and economic transactions between the communities and loan or grant providers; the human capital theory, which focuses on us appreciating the role of community member's knowledge, skills, and experiences when accessing loans and grants from funders; and the community development theory, which focuses on how we can build the community and ensure that the community experiences a level of resilience. The section therefore gives us a better understanding of what currently exists and the nature as shared by members within the community.

Keywords Loans • Grants • Community • Process of accessing a loan or grants • Social capital • Human capital • Community development theory

Jamaica suffers from the ability of its citizens to be able to afford all of its basic needs and they grapple with the inability to manage social issues, including high levels of public debt, unemployment, and poverty for both rural and inner city areas where they lack financial support. Achieving community development has been a key indication of achieving social inclusion of societies; however, this is achieved through the economic landscape and the ability to fund various resources that will help to foster community resilience and development. Two primary areas that government and non-governmental organization (NGO) have utilized to provide financial support have been through loans and grants as they foster inclusion in achieving financial, social, and infrastructure development through various Jamaican communities where a number of communities are now equipped with the ability to grow and better develop and sustain the Jamaican grants.

LOANS IN JAMAICA

Loans have been defined as financial tools that require repayment over time, typically with interest. They are primarily used by individuals and communities to invest in opportunities that promise future returns (IMF 2017). Loans have been rooted in Jamaica especially since Jamaica gained independence in 1962. As the government has tried to create an industrialized and infrastructure development, loans from both international and domestic lenders provide citizens with the option to create better, more inclusive communities for their kids and to meet some of their social needs. The World Bank and the International Monetary Fund (IMF) are two international organizations that are frequently approached by governments and non-governmental organizations (NGOs) in need of financing. The IMF has offered significant loans to support extensive projects that are intended to modernize the economy. Domestically the Development Bank of Jamaica (DBJ) has also provided microloans to entrepreneurs who lack access to traditional banking services. These loans help small businesses and communities expand, innovate, and create jobs, contributing with building the communities' local economic growth.

A key component shared by many Jamaicans is the ability to repay the funds that have been borrowed even though it has contributed to increase productivity and economic growth. Loans provide the necessary capital for business expansion, leading to increased productivity and economic growth. Timely repayment of loans helps borrowers build credit histories, improving future access to financial resources. By enabling businesses to grow, loans contribute to job creation and reduce unemployment rates. However, high interest rates and repayment schedules can create financial stress for borrowers, particularly those in vulnerable economic positions. Additionally, strict eligibility criteria may exclude low-income individuals and small businesses from accessing loans.

GRANTS IN JAMAICA

Grants, unlike loans, are exhaustible funding distributed by governments, NGOs, and international bodies to support specific initiatives or actions. Grants have been pivotal in addressing Jamaica's social and community development needs. The Government of Jamaica, in collaboration with several foreign donors, has undertaken several grant-funded initiatives aimed at addressing poverty, education, healthcare, and infrastructure since the country's independence. These initiatives seek to give impoverished areas vital services and a higher standard of living. Grants have had a particularly significant effect in the fields of health and education. For instance, funds have been given to the Jamaican Ministry of Education to strengthen teacher preparation programs, offer scholarships, and upgrade school facilities. Similarly, health-focused grants have supported initiatives to combat diseases, improve maternal and child health, and expand access to healthcare services.

Grants do not need to be repaid, reducing the financial burden on recipients and allowing them to focus on achieving project goals. Grants can be directed toward specific community needs, such as building schools, healthcare facilities, and community centers. Many grants come with additional support, such as training and technical assistance, which enhances the effectiveness and sustainability of funded projects. However, once the grant period ends, maintaining the project's outcomes can be challenging without continued funding. The application process for grants is often highly competitive, with limited funds available relative to demand.

LOANS VERSUS GRANTS

The impact of loans and grants on Jamaican communities can be examined through various lenses. By providing capital for business expansion, loans drive economic growth and job creation. However, the repayment burden can be a significant challenge for borrowers. Grants support social infrastructure and community development, creating a foundation for long-term economic stability. They address immediate community needs without the burden of repayment. While loans empower individuals and businesses economically, they can also lead to financial stress if not managed properly. Grants enhance community cohesion and social welfare, providing critical services that improve living conditions and educational outcomes. The sustainability of loans depends on the borrowers' ability to generate sufficient returns to meet repayment obligations. Projects funded by grants need strategies for long-term sustainability beyond the funding period to ensure lasting benefits.

In the context of Jamaica, both loans and grants play indispensable roles in supporting economic and social development. Loans primarily drive economic empowerment by providing capital to businesses and entrepreneurs, fostering job creation and economic growth. Grants, meanwhile, address essential social needs and community development projects, laying the groundwork for sustainable development. The socio-economic fabric of Jamaican communities can be greatly improved by an integrated strategy that makes use of the advantages of both financial tools, opening the door to a more affluent and just future.

The book was guided by the following areas as I used these areas to shape the conversation about loans and grants within communities in Jamaica.

1. The economic impacts of loans and grants in communities in Jamaican, and how they have contributed to local economic growth.
2. The implication of loans and grants in affecting the social development of Jamaican communities.
3. The major challenges and barriers that affect Jamaican communities in accessing and utilizing loans and grants, and the implication in mitigating to ensure more financial support.
4. The long-term impacts that loans and grants have on the sustainability and resilience of Jamaican communities.

DEVELOPMENT LOANS SUCCESSFUL IN FOSTERING ECONOMIC EXPANSION AND REDUCING POVERTY

One type of debt that a person or another business may have is a loan. The borrower receives a loan from the lender, which is typically a government agency, business, or financial institution. The terms that include financing charges, interest, an amortization date, and other limitations are accepted by the borrower in return (Kagan 2024). In order to promote economic growth and combat poverty, Jamaica has a lengthy history of obtaining development loans from financial organizations like the World Bank and the International Monetary Fund (IMF). For many years, there has been debate and examination on how well these loans perform the functions for which they were meant. This chapter seeks to explore the historical effectiveness of development loans in Jamaica in promoting economic growth and poverty reduction.

Historically, development loans have been critical in funding infrastructure projects, social initiatives, and reforms aimed at spurring economic growth to decrease poverty in Jamaica. Infrastructure, healthcare, education, and agriculture are some of the sectors in which the funds have been used for investments. The International Monetary Fund (IMF) claims that after gaining independence in 1962, Jamaica's economy expanded rapidly and it soon reached middle-income status. Incomes stagnated for a while, especially after the global financial crisis of 2008 and the significant financial crises of the 1990s. These difficulties have included poor policy decisions that resulted in a disproportionate amount of public debt, a high rate of crime, diaspora and brain drain, and susceptibility to natural disasters (IMF 2019).

THE CAUSE OF THE DEBT ISSUE IN JAMAICA

Since gaining its independence in 1962, Jamaica has been heavily dependent on the export of goods like sugar, coffee, and cocoa, which is where the country's debt originated (Dear et al. 2013). Economic agreements made in Jamaica during the British colonial era served British interests and resource exploitation, which had long-term effects on the economy and growth of the nation (Choi 2022). The increase in global oil prices in 1973 caused the economy to collapse and sharply increase the cost of imports. Due to growing interest rates at the start of the 1980s, debt

payments skyrocketed, going from 16% of exports in 1977 to 35% by 1986 (Hayes 2023).

In addition, from 1980 to 2010, Jamaica's GDP grew at an average annual rate of about 0.65%. Since 1990, the economy has largely stopped expanding. Following financial deregulation in 1991, the most stringent austerity program, which ran from 1989 to 1993, resulted in notable increases in poverty and inequality (The World Bank in Jamaica 2024). High interest payments have been an ongoing strain. The Jamaican government has paid back more foreign loans (\$19.8 billion) than it has taken in (\$18.5 billion) since 1970. The anticipated amount of external debt owed by the government is still \$7.8 billion. Over the past two decades, the Jamaican government has seen budget surpluses; yet interest payments ultimately contributed to a deficit (Jamaica and the IMF: The Power of Partnership and Ownership 2019).

Massive rescue funds were first offered by the World Bank and the IMF in the 1980s, but they came with tight conditions, such as public sector job losses. For instance, there was a 60% decline in the number of registered nurses throughout the 1980s. A decade later (1990s), a private banking crisis led to rising government debt resulting from banking bail-outs ultimately leading to a recession. The country's foreign debt in 1998 was 32%; in 2004 it grew by 20%, resulting in the government incurring a 52% deficit. In 2008, the economy experienced yet another recession, and with the recession, loan interest gradually increased significantly. In 2011, the IMF expected a 0.6% growth, while the GDP decreased by 1.5%. One of the prerequisites for the IMF loan led to salary freezes in the public sector, resulting in 20% real term pay loss due to inflation. Salary cutbacks were declared unlawful by the Supreme Court and the Industrial Disputes Tribunal following lawsuits filed by public sector employees against the government (Boughton 2000).

The primary reason for foreign debt in any country is a decline in exports paired with a rise in imports. This debt is mainly the result of government overspending, with factors like trade imbalances and economic crises playing no significant role (Kenton 2024). According to CAPRI (2008), "Jamaica's initial experience with public debt financing in the 1970s was driven by poor policy decisions and external shocks that highlighted the country's structural vulnerabilities." Two types of policy choices were involved. Paradoxically, the introduction of exchange controls negatively impacted the external balance by reducing export incentives and leading to private hoarding of foreign currency.

CAPRI's report also noted that heavy "debt burdens hinder growth by diverting resources away from the private sector, often seen in the form of higher interest rates." Thus, debt increases macroeconomic uncertainty and shifts policymakers' focus away from necessary reforms. The negative impact of debt on growth becomes more pronounced when debt exceeds a certain threshold.

Jamaica gained independence from British colonial rule in 1962. Like many other newly independent nations, it faced the task of building its economy and infrastructure while grappling with inherited structural issues. At independence in 1962, Jamaica inherited a high dependency on exporting crops such as sugar, coffee, and cocoa. The Capri (2008) report also added, over 40 years, Jamaica has been "rescued" on countless occasions. In the 1980s, the island almost became a byword for "structural adjustment." After four decades of austerity, the country has a few lessons for the likes of Greece, Portugal, and Ireland. Hundreds of thousands of lives were wasted on sugar plantations, which "kept the wheels of metropolitan industry turning" in Britain. Jamaica never recovered from slavery; former slaves remained deeply impoverished, and the economy almost totally dependent on foreign capital, mining, and raw materials, while importing food and other essentials.

JAMAICA, A ROUGH 2013

Three years after signing the IMF deal and completing the debt exchange, Jamaica returned to the IMF for another exchange. Again, the transaction solely impacted locally held debt and did not lower the principle. According to Johnston (2013), Jamaica was mandated by the IMF to sustain primary surpluses of 7.5% of GDP, which is defined as revenue less expenditure, excluding interest costs. UNDP (2010) states that the Jamaica Debt Exchange (JDX) dissolved in February 2010 after opening in January 2010. By swapping high interest, short-term debt instruments for lower interest, longer-term coupons, the initiative aimed to reduce the budgetary strain of repaying domestic debt on the central government while preserving positive real rates for domestic investors. The deal has considerably decreased the Government of Jamaica's interest repayment burden, resulting in about US \$ 527.5 million in savings each year in 2010 and 2011, equivalent to 3.5% of GDP (Caribbean Development Bank 2013).

However, the global financial crisis, rising commodities' import prices, and Jamaica's unsustainable debt burden have all contributed to increased

expenditure. From roughly 10% in 2008 to over 16% in 2013, the unemployment rate increased, ranking second highest in the Americas. In 2013, the People's National Party (PNP) gained power in Jamaica under the leadership of Prime Minister Portia Simpson-Miller. After winning the December 2011 general elections, the PNP formed a government and remained in power until the February 2016 general elections (IMF 2022). During this era, Jamaica suffered substantial economic issues, including high levels of debt, prompting the government to seek aid from foreign financial organizations such as the foreign Monetary Fund. By 2013, Jamaica's public debt had reached a record level of around 147% of GDP, making it one of the world's most indebted countries.

The government received a wake-up call in 2013, when its debt overhang reached a height of about 150% of GDP, according to the World Bank (2019). The year 2013 saw a sharp rise in poverty, primarily as a result of Jamaica's enormous debt to its lenders. Around 55% of the funds allocated in that particular year went toward paying off domestic and foreign loans that restricted access to necessities including housing, health-care, and education (IMF 2022).

In 2013, the authorities reached an agreement with the International Monetary Fund (IMF) on a four-year arrangement under the Extended Financing Facility (EFF) to restore fiscal discipline through wage controls and other expenditure cuts supported by a multiyear wage agreement (Independent Evaluation Group, *Economic Stabilization: Lessons from Jamaica*). The program aimed to significantly enhance the primary budget surplus from 3.2% in 2011 and 2021 to 7.5% of GDP in the medium term (2013–2017) (IMF 2022).

The first program review, as well as every subsequent review until the arrangement's completion, was successfully completed by October 2013, marking the achievement of early Extended Financing Facility (EFF) program targets (IMF 2013). Early EFF program targets were met by October 2013, and the first program review—as well as all future reviews until the arrangement's termination—was essentially finished (IMF 2013a, 2016c).

USE OF LOANS IN JAMAICA TO MANAGE 2013

Since joining the IMF, Jamaica has regularly used IMF resources and benefited from the availability of loans to enhance the country's standard of living and economic stability. The International Monetary Fund (IMF) provides loans to Jamaica to support economic reform initiatives and

stability. When Jamaica borrows from the IMF, the money is usually utilized for a range of objectives, including resolving economic issues and enacting policy reforms. Here are some common uses of IMF funds in Jamaica.

BUDGETARY SUPPORT

IMF loans can be used to support government budget deficits, assisting with costs such as public sector pay, social programs, and debt servicing. This budgetary help may be critical for stabilizing government finances and guaranteeing fiscal sustainability. In 2010, the IMF approved a \$1.27 billion loan for Jamaica to help address its rising government debt and sluggish economic growth caused by the global recession. A portion of these funds was directed toward expanding cash transfers to low-income groups through the Program of Advancement Through Health and Education (PATH). PATH beneficiaries may receive support in areas such as employment opportunities and education continuation, including initiatives like Steps to Work, Post-Secondary Education Grants, and Tertiary Education Bursaries. As reported by the Jamaica Gleaner (2023), “[R]ecipients also have access to entrepreneurship training, microfinance assistance, and grants of up to \$200,000 for small business development” (Jamaica Gleaner 2023).

STRUCTURAL REFORMS

IMF loans frequently include conditions or policy requirements designed to promote economic stability and growth. These prerequisites might include structural reforms like budget reduction, tax reforms, public sector reforms, and improved governance and transparency. The cash may be utilized to help execute these improvements. In January 2024, Jamaica reached a staff-level agreement with the International Monetary Fund (IMF) after the organization’s review of the country’s Precautionary and Liquidity Line (PLL) and Resilience and Sustainability Facility (RSF), though it has not yet been formally approved (IMF 2022). The IMF noted that Jamaica’s economy showed continued improvement in 2023 and adhered to recommended measures to address high inflation (Gleaner 2024).

INVESTMENT IN INFRASTRUCTURE AND DEVELOPMENT

IMF loans can also be used to fund infrastructure projects and development programs that aim to boost Jamaica's long-term competitiveness and resilience. This may involve investments in transportation, energy, telecommunications, and other critical areas. For example, in 2022 a tentative price tag of over \$304 billion courted from the World Bank had been linked to an implementation plan and train service that constitute part of the projected renovation of downtown Kingston's market and commercial district—one of around nine such designated sites in Jamaica (Medley 2022).

THE ECONOMIC EFFECT OF BORROWING

Lending organizations such as the International Monetary Fund (IMF) and the World Bank have the same purpose of boosting living standards in their member countries. Their approaches to accomplishing this common aim are complementary—the IMF emphasizes macroeconomic and financial stability, whereas the World Bank focuses on long-term economic growth and poverty reduction. But though these intentions are good, they can be skewed when it comes to developing countries. When a country borrows from the IMF, the government agrees to adjust its economic policies to overcome the problems that led it to seek [financial assistance](#).

Moreover, structural adjustment programs attached to many development loans have often led to austerity measures, including cuts in government spending, privatization of state-owned enterprises, and deregulation of markets. These measures have sometimes had adverse effects on vulnerable populations, exacerbating poverty and income inequality. Furthermore, there have been concerns about the conditionalities attached to development loans, which may prioritize macroeconomic stability over social welfare objectives. Critics argue that these conditionalities have sometimes led to policies that benefit creditors and international financial institutions rather than the local population.

According to Johnston (2013) Jamaica's history of indebtedness and experience during the global economic downturn examines its current agreement with the International Monetary Fund (IMF). He found that Jamaica's economic and social progress has suffered considerably from the burden of an unsustainable debt, and that even after the debt restructuring of 2010, Johnston (2013) stated, this burden remains unsustainable

and very damaging. Pro-cyclical macroeconomic policies, implemented under the auspices of the IMF, have also damaged Jamaica's recent and current economic prospects. As one of the most highly indebted countries in the world, with a gross public debt of 129% of GDP in fiscal year 2009/2010, Jamaica has been burdened by heavy debt servicing costs due to both the size of its debt and very high interest rates (Johnston 2013). Over the last five years the government's interest payments have averaged 13% of GDP or 49% of non-grant government revenue. During fiscal year 2009/2010 these were even higher, reaching 17% of GDP or 64% of non-grant revenue.

When it comes to borrowing, from a developing country standpoint, the effectiveness of these loans in achieving sustainable economic growth and poverty reduction has been mixed. While some projects funded by development loans have yielded positive results and contributed to economic development, others have faced challenges and shortcomings. One key issue has been the high level of debt Jamaica has accrued over the years due to borrowing. High debt servicing obligations have constrained the government's ability to invest in social programs and infrastructure, which are essential for poverty reduction and long-term economic development.

HOW TO SECURE A COMMUNITY LOAN IN JAMAICA

To secure a community loan in Jamaica it is important that the community has a governing body. This body must have a working secretariat and documents to showcase how they have utilized finances. The governing body will first need to identify its applicability to the loan area that the loan agencies are offering. The loan entity will do an eligibility check to verify the information submitted is correct. Their Community will therefore complete the application process where they are also expected to present necessary documentation, such as audible documents, etc. After which they must submit a business plan and proposal that looks at the sustainability of the program or project. The loan entity will also do a credit evaluation of the community and may do a site visit and appraisal to the community. The loan is then approved, accepted, and disbursed. After completion the community will have to look at repayment of the loan (Fig. 1.1).