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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

JAMAICA

PROJECT PAPER

ECONOMIC RECOVERY

AID/LAC/P-068

Loan Number: 532-K-014

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CLASSIFICATION:

AIO 1123-1 (D-66) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO. LAC-81-03	Loan Number 532-K-014
			2. COUNTRY JAMAICA	
			3. CATEGORY CASH TRANSFER	
			4. DATE December 29, 1980	
5. TO: Administrator		6. OYB CHANGE NO. ---		
7. FROM: AA/LAC, Edward W. Coy (Acting)		8. OYB INCREASE \$40,000,000 TO BE TAKEN FROM: Economic Support Fund (ESF)		
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$40,000,000		10. APPROPRIATION - ALLOTMENT 72-1111037 137-65-598-00-58-11		
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD FY 81	14. TRANSACTION ELIGIBILITY DATE Date of Approval	
15. COMMODITIES FINANCED				

16. PERMITTED SOURCE U.S. only: \$40,000,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: \$40,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION

The purposes of the \$40 million cash transfer are (1) to provide immediate balance of payments support to allow critically needed imports of spare parts, industrial and agricultural inputs, and capital goods; and (2) to stimulate production, exports and employment. The cash transfer will be made in two tranches so as to provide bridge financing during the initial months of 1981 until IMF, IBRD and other donor funding is expected to be available. Local currencies generated under the loan will be allocated to categories mutually agreed upon within the GOJ 1981/1982 budget.

The GOJ shall agree to import from the United States within one year from the date of disbursement goods and services for use in its economic recovery program in an amount at least equivalent to \$40 million.

19. CLEARANCES LAC/CAR:GHILL 11/21/81 GC/LAC:BVeret 11/19/81 LAC/DR:MDBrown 11/23/81 FN/C:TMcMahon 11/23/81 PPC/PDPR:JERippon 1/29/81 AA/PPC:ASHakow 1/29/81 GC:Holmes 1/29/81	20. APPROVED / DISAPPROVED <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED AUTHORIZED SIGNATURE: <i>[Signature]</i> TITLE: Administrator DATE: Jan 14/1982
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ARA:Jeddy

CLASSIFICATION:

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1. SUMMARY AND RECOMMENDATIONS

A. Recommendation: It is recommended that the Administrator of A.I.D. authorize a loan of \$40 million from Economic Support Funds to provide balance of payments assistance to the Government of Jamaica. A request for a supplemental appropriation of Economic Support Funds (ESF) to finance this program was approved by Congress on December 11, 1980, and signed by the President on December 16, 1980.

B. Summary Justification: The Government of Jamaica is faced with an enormous balance of payments gap currently estimated at more than US \$550 million in 1981. Although the new Seaga government is totally committed to a program of economic recovery, it is confronted with tremendous obstacles. Among the most important are the lack of financial resources to purchase essential imports and to service a large external debt, and the need to curtail public development programs in order to reduce large GOJ budget deficits inherited from the former government. The proposed A.I.D. program which has been designed in conjunction with a prospective IMF Extended Fund Facility Agreement (EFF) and Other Donor support, will alleviate the severe balance of payments problem facing the economy. Special financing will be required to fill the projected external gaps during the 1981 - 1983 period. This special financing is estimated at:

(in million of US \$)

	<u>1981</u>	<u>1982</u>	<u>1983</u>
I.M.F. (gross)	200	200	177
Refinancing from Foreign Commercial Banks	113.3	87.1	80.2
Venezuela/Mexico Oil Facility	91	100	100
World Bank	40	40	40
Donor Countries	50	40	40
OPEC	10	10	10
Trinidad Oil Facility	10	10	10
A.I.D.	60	50*	?
Total	\$574.3	537.1	457.2

*FY 1982 CP

The Mission and LAC Bureau have determined that non-project assistance is the most appropriate A.I.D. mechanism to use because of the need to respond quickly to urgent needs for foreign exchange. A cash transfer is recommended because of the need to accelerate disbursements in order to impact immediately on the balance of payments problem. Previous experience in Jamaica with a 1977 Commodity Import Program demonstrated that approximately three years were required to disburse \$9.4 million.

*US \$1.00 = J\$1.78

The serious economic circumstances facing the new government necessitate a rapid disbursement of U.S. dollars which can best be provided using the cash transfer mechanism.

Upon receipt of loan funds, the Government of Jamaica will allocate the local currencies generated by the \$40 million cash loan to its 1981/1982 capital and recurrent budgets.

C. Summary Conditions and Covenants:

1. Lending Terms and Interest Rate - The Borrower shall pay the loan to A.I.D. in U.S. dollars within twenty (20) years from the date of first disbursement under the loan including a grace period of not to exceed ten (10) years. The Borrower shall pay interest at the rate of 2% per annum during the grace period and 3% thereafter. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six months after disbursement of the loan.

2. Repayment - The Borrower shall repay to A.I.D. the principal within twenty (20) years from the date of loan disbursement hereunder in approximately equal semiannual installments of principal and interest. The first installment of principal shall be payable 9½ years after the date on which the first interest payment is due.

3. Disbursement/Tranching - The loan will be disbursed in two tranches: (1) \$10 million will be disbursed immediately upon satisfaction of initial conditions precedent (which are A.I.D.'s standard provisions); and, (2) an additional \$30 million will be disbursed upon receipt of a letter from the IMF to A.I.D. which states that the Letter of Intent submitted by the Jamaicans is acceptable to the IMF.

4. Conditions Precedent to Initial Disbursement - Prior to the first disbursement under this Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

-- An opinion from the Minister of Justice of the Borrower stating that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

-- A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Borrower pursuant to Section 8.2, together with a specimen signature of each person certified as to its authenticity.

5. Procurement - The Borrower will covenant that, during the year following the initial disbursement of A.I.D. loan funds, Jamaica will import from the U.S. at least \$40 million of goods and/or services, excluding defense items and luxury goods and will submit the list to A.I.D.

6. Waivers - No waivers are required.

II. BACKGROUND

A. Seven Years of Decline: Jamaica has compiled a singularly dismal economic record over the past seven years. Between 1973 and 1980, GDP, measured in constant Jamaican dollars, has declined a total of 18.3%, as production declined or stagnated in all major sectors of the economy. Real per capita income declined even more--a total of more than 25% between 1973 and 1980. Added to this decline in production and real incomes was a massive increase in unemployment. At the last official measurement, in October 1979, unemployment stood at 31.3%. More recent estimates put the rate somewhere in excess of 35%.

Large fiscal and balance-of-payments deficits, meanwhile, produced an official foreign debt that on September 30, 1980, totalled approximately \$1.79 billion. Debt service payments due--approximately \$1.65 billion over the next three years (approximately 50% of total expected export earnings)--have now, in fact, risen to the point where they effectively exclude the possibility of an economic recovery based only on Jamaica's own resources.

B. Causes of the Decline: Behind this decline in the Jamaican economy were essentially four factors: a precipitous decline in private investment, a series of unexpected shocks to the external account, the GOJ's miscalculation as to the ultimate effects of a levy on bauxite production, and, lastly, a series of deficit budgets financed by large short-term foreign borrowings and excessive monetary expansion.

Until its decline in the mid-seventies, foreign private investment had effectively carried the Jamaican economy, offsetting large current account deficits that, as a percent of GDP, exceeded the current account deficits of recent years. Beginning in the early seventies, however, an exhaustion of opportunities in the two major sectors, bauxite mining and tourism, which had absorbed the largest portion of foreign investment funds throughout the 1950s, 1960s and early 1970s, and a decline in foreign investor confidence in the future of Jamaica, produced to a large extent by the rhetoric of the then PNP government, combined to reduce foreign private capital inflows to a point where the autonomous capital inflows could no longer cover the current account deficit. An overall payments deficit appeared for the first time in 1975. By 1976 this deficit had climbed to \$244 million (11% of GDP) before declining under pressure from import and foreign exchange controls.

These payments deficits were aggravated by two unexpected shocks to the external account. First was the rapid rise in oil prices after 1973. Between 1974 and 1980, Jamaica's oil payments bill rose from US \$195 million (21% of total imports) to US \$440 million (33% of total imports). The second shock was an unanticipated decline in tourism receipts which followed unfavorable publicity regarding Jamaica in several of Jamaica's major tourism markets, and a cut in travel from America and Western Europe which were in the middle of a severe recession. Between 1974 and 1976, tourism receipts declined 21.5% in nominal terms and by a much greater amount in real terms before recovering in 1977, 1978 and 1979.

The third factor in the decline was the government's miscalculation of the effects of a several fold increase in the levy on bauxite production in Jamaica. Where Jamaica had expected the producer companies to accept the levy without serious complaint, the producer companies in fact resisted strongly, reducing bauxite production in Jamaica during the

1975 recession and accelerating the opening up new sources of supply in other countries. In two years, bauxite production in Jamaica declined from 15.3 million metric tons in 1974 to only 10.3 million metric tons in 1976. This decline alone accounted for nearly one fourth of the 12.5% decline in GDP that occurred between 1974 and 1976.

The fourth factor in the decline was the government's attempts to maintain employment and real incomes in the face of declining production through large government expenditure programs financed by foreign borrowings and money creation. This created large fiscal deficits, an exaggerated demand for imports, and the accumulation of a huge short term foreign debt.

C. Impact on Production and Employment: This loss and waste of economic assets produced major declines in production and employment throughout the economy. Over the seven year period between 1974 and 1980, GDP, in constant 1974 Jamaican dollars, decreased a total of 18.3%. Over this same period, real per capita GDP declined even more -- a total of more than 25%. Unemployment meanwhile increased rapidly, rising from 20.7% of the labor force in October 1974 to 31.3% in October 1979. In fact, over the five year period from 1974 to 1979, total employment increased by only 13,000, while the labor force increased by more than 140,000.

Production declined or stagnated in all major sectors of the economy. In mining, the decline in the demand for aluminum during the recession of 1975 and the decision by major producer companies to develop new sources of supply outside of Jamaica, led to a decline of almost 40% in real mining product between 1974 and 1976. Thereafter, the slow recovery in the world market and downward adjustment in the bauxite levy, produced a slow and incomplete recovery.

In manufacturing, a lack of foreign exchange to fund necessary capital good and raw material imports, a loss of trained management personnel and a declining domestic market for manufactures led to a 20% decline in real manufacturing product. This decline was accompanied by a major cut in employment. Between 1974 and 1979, 10,000 of the 80,000 jobs in manufacturing were lost.

In construction, the decline in national investment (from 30.5% of GDP in 1974 to 10.5% in 1977) made its effects felt first and most severely. Between 1974 and 1977, real GDP in construction declined more than 40% and has not recovered since. The loss in jobs totalled more than 15,000, i.e., more than one-third of those employed in construction.

In the service sectors, GDP declined very little because of large increases in expenditure on public administration, where employment increased by almost 40,000. GDP in tourism, the other major portion of the services account, followed a very uneven course throughout the late 1970s, decreasing in 1975 and 1976, but recovering in 1978, 1979 and 1980.

In agriculture, a rapid expansion in food crops largely offset declines in export crops, producing an overall 15% increase in real agricultural product between 1975 and 1978. Thereafter floods, labor problems and shortages of imported pesticides and fertilizers began to restrict

production, reducing agricultural product in 1979 by 6%. Employment in agriculture, in general, followed production, rising until 1978 and declining rapidly thereafter.

Preliminary estimates for 1980 indicate that employment and production continued to decline in all major sectors, with the exception of mining, which benefitted from a reduction in the bauxite levy. Overall, initial estimates indicate a further 3 to 3.5% decline in GDP and an increase in unemployment to the range of 35%

TABLE I

JAMAICA - SECTORAL ORIGIN OF GDP IN CONSTANT PRICES, 1974-1980

	1974	1975	1976	1977	1978	1979	1980 Proj.
(In millions of Jamaican dollars at 1974 prices)							
<u>GDP at Market Prices</u>	2,265	2,212	2,028	1,989	1,955	1,911	1,861
Agriculture and Fisheries	162	165	158	171	187	176	172
Mining	298	228	184	217	222	219	232
Manufacturing	386	396	375	340	323	312	300
Construction and installation	214	212	169	129	133	128	122
Electricity, gas, and water	22	23	24	23	24	23	23
Services	1,183	1,189	1,118	1,109	1,066	1,053	1,012
(As per cent of total)							
Agriculture	7.2	7.5	7.8	8.6	9.5	9.2	9.2
Mining	13.2	10.3	9.1	10.9	11.5	11.5	12.5
Manufacturing	17.0	17.9	18.5	17.1	16.5	16.3	16.1
Construction and installation	9.4	9.6	8.3	6.5	6.8	6.7	6.6
Electricity, gas, and water	1.0	1.0	1.2	1.1	1.2	1.2	1.2
Services	52.2	53.7	55.1	55.8	54.7	55.1	54.4

Source: Department of Statistics, National Planning Agency

TABLE II

JAMAICA - EMPLOYED LABOR FORCE BY SECTOR AND UNEMPLOYMENT RATE
1974-1979

	1974	1975	1976	1977	1978	1979
Agriculture, Mining & Refining a/	229.7	241.4	246.3	255.8	258.0	221.8
Manufacture	81.1	72.7	75.0	74.9	78.2	71.9
Construction & Installation	41.6	43.8	36.3	32.1	35.0	26.5
Transport, Communications & Public Utilities	25.5	31.2	32.4	31.4	30.8	29.7
Commerce	75.5	81.1	84.6	90.1	91.5	90.8
Public Administration	83.2	96.1	106.7	111.8	103.2	109.4
Other Services)			94.0	98.5	99.5	105.0
)	114.0	118.0				
Industry Not Specified)			3.8	4.5	5.9	8.3
Total Labor Force Employed	650.6	684.3	679.1	699.2	702.1	663.4
Total Unemployed	159.5	181.3	216.4	218.7	247.1	299.1
Total Labor Force	820.1	865.6	895.5	917.9	949.2	962.5
Rate of Unemployment (%)	20.7	20.9	24.2	23.8	26.0	31.3

a/ Other group includes forestry and fishing, and quarrying.

Source: Department of Statistics

D. Impact on Government Revenue and Expenditure: The Government's fiscal position has deteriorated rapidly since 1974 as revenues, undermined by a declining economy, failed to keep pace with rapidly rising expenditures. The result has been a series of deficit budgets, all financed in large part by credit from the banking system.

Between JFY-73/74 and JFY-76/77, expenditures rose from 25% to more than 42% of nominal GDP, before declining slightly as a fraction of GDP under the pressure of expenditure controls. Major increases occurred in both the current and the capital account. In the case of the recurrent account, the rapid growth in the public wage bill, and large increases in current transfers and interest payments accounted for most of the increases in expenditures. In the case of the capital account, loans and transfers to public sector industries, aimed at maintaining current production and employment, absorbed most of the increase, providing little net public capital formation. Revenues failed to keep pace with this increase in expenditure. Even with the increase of the bauxite levy, revenue, as a percent of GDP, rose only 2.5% (to 22.5%) between JFY-75 and JFY-77. Thereafter, steep increases in income taxes and consumption and import duties produced but small increases in revenue.

The result was a series of budget deficits which increased each year until 1977, when the deficit stood at 19.4% of GDP. Thereafter the

deficits slowly decreased, as measures to control expenditure and increase revenues slowly took effect. In JFY-80, however, the deficit still stood at J\$755 million (15.5% of GDP). For JFY-81, a further deficit of J\$900 million (15.8% of GDP) is expected.

TABLE III

JAMAICA--OPERATIONS OF THE CENTRAL GOVERNMENT, FY1973/74--FY1980/81
(IN MILLIONS OF JAMAICAN DOLLARS)

	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81 Est.
TOTAL REVENUE	347.7	517.5	640.7	606.7	652.2	1037.3	1118.0	1218.0
Tax Revenue	322.2	394.5	477.5	484.8	487.9	737.4	832.0	864.0
Non-tax Revenue	24.7	34.0	36.9	40.3	42.5	30.1	53.0	42.0
Bauxite Levy <u>a/</u>	-	85.0	125.0	80.0	110.0	268.0	233.0	312.0
Capital Revenue	0.8	4.0	1.3	1.6	11.8	1.8		
TOTAL EXPENDITURES	443.1	704.6	933.7	1130.8	1165.4	1594.1	1873.0	2115.0
Current Expenditure	340.2	493.2	628.9	771.6	832.8	1142.8	1283.0	1459.0
Capital Expenditure	102.9	211.4	304.8	359.2	332.6	451.3	590.0	656.0
CURRENT ACCOUNT	6.7	20.3	10.5	-166.5	-192.4	-207.3	-166.0	-249.0
OVERALL DEFICIT	-95.4	-187.1	-293.0	-524.1	-513.2	-556.8	-755.0	-897.0
FOREIGN FINANCING (net)	53.9	55.2	99.4	83.2	21.1	269.9	233	260
Disbursements			110.4	106.7	69.1	427.3		
Amortization			- 11.0	- 23.5	- 48.0	657.4		
DOMESTIC FINANCING(net)	41.5	131.9	193.6	440.9	492.1	286.9	522.0	268.0
Banking System	18.1	43.2	114.9	325.9	229.4	135.9	310.0	141.0
Non-Bank	23.4	88.7	78.7	115.0	262.7	151.0	212.0	127.0
Unfinanced								369.0

E. Money Supply and Inflation: Domestic credit increased rapidly between 1973 and 1980 in response to increasing demands for credit from the Government. Money supply growth, however, was more moderate as a result of a deliberate policy decision by the Bank of Jamaica to accept massive foreign debts in exchange for relative price stability. There was a burst of inflation following exchange rate adjustments in 1978 and 1979 but price increases slowed thereafter. By the close of 1980, however, with foreign credit sources largely exhausted, the money supply and inflation rates were beginning to increase rapidly.

Between 1974 and 1980, domestic bank credit expanded much more rapidly than did nominal GDP. Starting at 32.5% of nominal GDP in 1973, domestic credit rose to 44.8% of domestic GDP by close of 1980. Public sector debts accounted for the largest portion of this new credit. By 1980, total credit to the public sector had risen to 30.3% of nominal GDP; the public sector's share of all new credit had risen to 67.5%.

In contrast to this rapid expansion in domestic credit, money supply growth was more moderate between 1973 and 1980. Only in 1975, 1976 and 1977 did money supply growth exceed the growth in nominal GDP, and, for the full seven year period, money supply growth approximately matched nominal GDP growth. It should be noted, however, that if the growth of the money

supply had been less during this period, the growth of nominal GDP--and of course the rate of domestic price inflation--would also have been less.

The actual growth rate of money supply was possible to restrain only because of a basic policy decision to restrain monetary growth and inflationary pressures at almost any costs in foreign debt. The final cost in debt proved very high. Between 1975 and 1980, the Bank of Jamaica's net foreign assets dropped from a positive J\$56.7 million to a negative J\$896 million, while the combined debt of the GOJ and the Bank of Jamaica climbed to approximately US\$1.79 billion.

Inflation, however, for much of this period remained moderate. In 1975, 1976, and 1977, inflation never exceeded an annual rate of 16%, despite large fiscal and balance-of-payments deficits. In 1978, a major devaluation in the Jamaican dollar forced inflation temporarily close to an annual rate of 50%, but, with the suspension of crawling exchange rate adjustments in 1979, inflation rates returned to a more moderate 20% annual rate.

In 1979 and 1980, however, with foreign sources of credit virtually exhausted, the Bank of Jamaica has been forced to issue unbacked credit to cover the government's huge fiscal deficit. As a result of this and the bidding up of the prices of scarce imports, inflation has risen to an annual rate of 30 to 35% by mid-1980 and is expected to go higher, if new sources of foreign funding are not found.

TABLE IV

JAMAICA: SUMMARY ACCOUNTS OF THE BANKING SYSTEM ^{1/}
(In millions of Jamaica dollars)

	1976	1977	1978	1979	1980
<u>Net foreign assets</u>	<u>-215.6</u>	<u>-263.2</u>	<u>-569.5</u>	<u>-834.0</u>	<u>-896.6</u>
<u>Net domestic assets</u>	1, 203.3	1, 382.8	1, 988.6	2, 459.1	2, 953.1
Net claims on Central Government	491.4	695.1	935.1	1, 156.8	1, 618.0
-Net claims on rest of public sector	37.8	58.0	78.9	129.2	117.0
Selected public entities	(...)	(...)	(87.5)	(107.9)	(108.0)
Other public sector	(...)	(...)	(-8.6)	(21.3)	(9.0)
Official capital and surplus	-17.4	-17.9	-8.4	43.9	-8.5
Credit to other financial Institutions	31.8	26.5	48.7	62.5	50.0
Credit to private sector	596.9	521.9	617.3	734.4	865.0
Stabilization fund	--	20.9	--	44.1	1.6
Valuation adjustment	1.4	17.6	250.1	242.3	220.7
Net unclassified assets	61.4	60.7	66.9	45.9	89.2
<u>Allocation of SDRs</u>	<u>18.7</u>	<u>19.5</u>	<u>39.0</u>	<u>58.8</u>	<u>76.6</u>
Medium-and long-term foreign liabilities	<u>13.2</u>	<u>11.8</u>	<u>3.8</u>	<u>3.8</u>	<u>5.9</u>
<u>Liabilities to other financial institutions</u>	<u>105.8</u>	<u>71.9</u>	<u>99.7</u>	<u>110.4</u>	<u>124.0</u>
<u>Special deposits</u>	<u>--</u>	<u>--</u>	<u>63.3</u>	<u>2.6</u>	<u>163.0</u>
<u>Liabilities to private sector</u>	<u>850.0</u>	<u>1, 016.4</u>	<u>1, 213.3</u>	<u>1, 429.5</u>	<u>1, 687.0</u>
Money	301.3	420.2	497.4	570.1	644.0
Quasi-money	493.8	537.2	627.8	753.7	921.0
Other	54.9	59.0	88.1	105.7	122.0

Source: Bank of Jamaica; and Fund staff projections.

^{1/} End of period data. SDRs are valued at SDR 1.3 per U.S. dollar. The U.S. dollar/Jamaica dollar rate is J\$1.78 per U.S. dollar.

F. Debt Service: Until 1976, Jamaica's repeated fiscal and balance-of-payments deficits were financed by drawings from the Bank of Jamaica's reserves, thereafter by public borrowings. The result, five years later: a precipitous decline in the Bank of Jamaica's net foreign assets (from J\$56.7 million in 1973 to a negative J\$896 million at the close of 1980) and a massive increase in the nation's official foreign debt. As of September 30, 1980 this debt stood at US\$1.79 billion.

Of this debt approximately two-thirds (\$1.23 billion) is direct government debt or government guaranteed debt; approximately one-third (\$560 million)

is owed by the Bank of Jamaica. Creditors include commercial banks (\$460 million), bilateral lenders (\$525 million), the IMF (\$350 million), other multilateral financial institutions (\$240 million) and others, primarily private individuals and corporations, (\$225 million).

Gross Service payments due on this public debt in 1981, 1982 and 1983 total approximately \$1.65 billion. Current plans call for refinancing about \$560 million of this. Even if these plans work out (and there is no guarantee yet that they will) almost \$1.1 billion in public debt service payments will still be due over the next three years--\$410 million in 1981, \$325 million in 1982 and \$350 million in 1983.

TABLE V

Total External Public Debt OutstandingAt September 30, 1980

(In millions of U.S. dollars)

<u>Total</u>	<u>1,791.3</u>
<u>Government Direct and Guaranteed</u>	<u>1,228.2</u>
Commercial Banks	(423.5)
Multilateral	(240.5)
Bilateral	(376.1)
Suppliers' Credit	(4.7)
Vendors' Credit	(43.2)
Market Loans	(26.5)
Other	(113.7)
<u>Bank of Jamaica</u>	<u>563.1</u>
International Monetary Fund	(347.4)
Commercial Banks	(39.0)
Venezuela Investment Facility	(22.6)
Venezuela Oil Facility	(20.0)
Trinidad & Tobago	(55.0)
Central Bank Libya	(50.0)
Other	(29.1)

G. Impact on Balance of Payments: Poor export performance, a sharply rising oil bill, disappointing tourism receipts, net private capital outflows, and mounting debt service payments together produced a series of large deficits in Jamaica's overall external account beginning in 1975. A summary of the balance-of-payments for 1974-1978 is shown in Table VI. A summary of the balance-of-payments 1979-1983 (1981-1983 are forecasts) is presented in Table VII of this document.

Exports were a particular disappointment. Between 1975 and 1980, all Jamaica's export commodities declined in volume. Bauxite exports fell from 7.9 million metric tons to 6.5 million metric tons, alumina exports fell from 2.8 million metric tons to 2.1 million metric tons, sugar exports declined from 270,000 metric tons to 187,000 metric tons and, lastly, banana exports fell from 72,000 metric tons to 65,000 metric tons. In most cases, price increases maintained nominal export earnings at previous nominal levels despite the decline in volume. In the case of sugar, however, a decline in prices during much of this period paralleled the decline in volume, leading

to a net loss of nearly \$100 million in export earnings. A large part of this loss was recovered from increased exports of other products, primarily manufactures and food products, but altogether nominal export earnings increased but 3% during the full five year period. The decline in real terms was very large. Adding to the problems caused by poor export performance were disappointing tourism receipts and a steep decline in the surplus on capital account. On the payments side, rapidly increasing oil payments and investment income outflows absorbed increasing amounts of foreign exchange.

Very little foreign exchange was left for any but the most essential imports, particularly after the imposition of foreign exchange and import controls in 1977 and 1978. These controls were directed first against imports of capital goods, food and other consumer items, but eventually also cut into the imports of raw materials and intermediate goods necessary for industry and agriculture. As a result of these controls, between 1975 and 1977 imports of capital goods dropped from \$346 million to only \$51 million; food imports from \$130 million to only \$50 million, and intermediate good imports from \$324 million to \$266 million. Since 1977, the nominal value of imports has increased moderately; volumes, however, have continued to fall.

TABLE VI

JAMAICA - BALANCE OF PAYMENTS, 1974-1978

(US\$ millions)

	1974	1975	1976	1977	1978
Exports (fob)	694	810	632	734	738
Imports (cif)	932	1,119	912	747	865
of which oil	(73)	(195)	(204)	(235)	(194)
TRADE BALANCE	-238	-309	-280	-13	-127
Services (Net)	48	-	- 51	- 99	- 13
(Tourism)	(112)	(76)	(47)	(60)	(88)
(Investment Income)	(-77)	(- 90)	(-17)	(-138)	(-111)
(Other)	(13)	(14)	(-81)	(- 21)	(10)
Transfers (net)	23	26	6	20	26
Current Account Balance	-167	-283	-331	- 92	-114
SDRs					
Public Capital <u>a/</u>	181	167	102	- 3	139
Additional Capital required					
Other capital <u>b/</u>	41	37	- 15	7	-132
Change in reserves	- 55	79	244	88	107
(-increase)					
of which change in arrears				(27)	(36)
(-decrease)					

a/ Includes publicly guaranteed

b/ Includes errors and omissions

Source: Bank of Jamaica, IMF.

III DIRECTIONS OF THE NEW GOVERNMENT OF JAMAICA

A. Directions: In its election manifesto (which remains, pending the completion of the government's negotiations with the IMF, the most comprehensive statement of the new government's economic plans), the Jamaica Labor Party promised a radical break with the nation's past economic policies. Where the former PNP government had inhibited foreign investment, the JLP promised to encourage it, particularly in labor intensive or export oriented industries. Where the former PNP government had sought to limit the role of the private sector and preserve for the public sector the "commanding heights" of the economy, the JLP promised to promote the role of the private sector, limit bureaucratic controls on and interference with economic activity, and, in general, to open the economy up to the motivational force of price and profit incentives. Lastly, where the PNP had been able to produce no alternative to continuing balance-of-payments deficits, the JLP promised a return to the IMF and, at least in the medium term, a return to the payments pattern of the late 1970s, when public and private capital in-flows had offset large current account deficits.

In regard to fiscal and monetary policy, the manifesto went on to promise that a JLP government would close the budget financing gap by 1984, limit the portion of new credit going to the public sector and ensure that sufficient credit was available for a reviving private sector. While the possibility of a devaluation was never openly addressed, comments in the manifesto to the effect that a JLP government would not depress consumption to force savings suggest that a devaluation would be for a JLP government a measure of last resort.

Detailed development programs are presented in the manifesto for all the major sectors of the economy. All the development programs share certain themes--incentives for the private sector, restrictions on the role of the bureaucracy, a focus on exports and foreign exchange earnings and an emphasis on the development of rural Jamaica.

All the steps the JLP government has taken since its election--its ardent wooing of foreign investors and its return to the IMF--indicate that the party was quite serious in fulfilling its promises of a radical turn in economic policy. While most of the steps promised will have to wait on the restoration of foreign exchange flows, it seems the JLP is moving in the direction that it promised--towards an economy more solidly based on private enterprise.

B. Balance-of-Payments Outlook: As has already been noted, Jamaica does not have sufficient foreign exchange resources to finance an economic recovery. Without an immediate injection of significant amounts of foreign exchange, the economic decline which has persisted since 1973 will accelerate. Although the need for concessional capital inflows will persist at least through 1983, and probably longer, the first quarter of 1981 presents special problems.

The Bank of Jamaica's liquid foreign exchange reserves have been critically low throughout 1980, but in November and the first two weeks of December they continually approached the zero mark. Receipts received during the second half of December, most significantly the \$50 million advance payment

of the bauxite levy due on January 15, enabled the Bank to meet all of its obligations for the month and to carry some \$20 million in liquid reserves into 1981. The outlook for January 1981, however, is extremely bleak. Inflows indentified to date, together with liquid reserves available at the beginning of the month, will not cover programmed expenditures. The resulting gap will be approximately \$13 million and liquid foreign exchange reserves will be exhausted by the end of the month unless further cuts in planned imports are made. The situation in February will be much worse as the projected foreign exchange for that month is \$40 million.

As far as we know, the proposed U.S. assistance represents the only foreign exchange input that could meet the January gap. By providing this assistance, the U.S. would not only give the Jamaican economy a chance to begin recovery, the U.S. would also be giving encouragement to other potential creditors, both public and private, who (with the exception of the U.K. which is providing a \$6 million loan) are currently on the sideline waiting for someone else to go first.

Even if Jamaica is able to get through January and February because of now unexpected capital inflows, the remainder of 1981 and the years immediately following will not be easy. This can be seen in Table VII which presents estimates for the balance of payments for 1979 and 1980 and forecasts for 1981, 1982, and 1983. The forecasts for 1981 through 1983 are based on GDP growth rates of 2%, 4%, and 5% for the three years and include the following special financing (in millions of U.S. dollars):

	<u>1981</u>	<u>1982</u>	<u>1983</u>
I.M.F. (gross)	200	200	177
World Bank	40	40	40
Donor Countries (excluding U.S.)	50	40	40
OPEC	10	10	10
Venezuela/Mexico Oil Facility	91	100	100
Trinidad Oil Facility	<u>10</u>	<u>10</u>	<u>10</u>
	<u>401</u>	<u>400</u>	<u>377</u>

Also assumed in the Table VII projections are refinancing or roll-over arrangements from foreign commercial banks of \$113.3 million in 1981, \$87.1 million in 1982 and \$80.2 million in 1983, as well as \$84.7 million in 1981, \$84.7 million in 1982 and \$109.7 million in 1983 from selected bilateral LDC's. The amount of refinancing included from the commercial banks is based upon the assumption that 87½ per cent of principal payments due in fiscal year 1980/81 will be deferred during the year and refinanced at the end of March 1981, as originally planned. It is further assumed that at the same time all unpaid maturities - including the remaining 12½ per cent - will be refinanced retroactive to September 16, 1980, and that all commercial bank maturities due in fiscal years 1981/82, 1982/83 and 1983/84 will be refinanced. To the extent that the assumptions used in Table VII projections do not prove correct, the 1981-83 picture will be changed.

TABLE VII

JAMAICA BALANCE OF PAYMENTS, 1979-1983
(MILLIONS OF U.S. DOLLARS)

	1979	1980	1981	1982	1983
A. MERCHANDISE	-188.3	-226.2	-335.6	-275.0	-403.3
Exports (f.o.b.)	814.7	943.8	1,104.4	1,318.0	1,419.7
Imports (c.i.f.)	1,003.0	1,170.0	1,440.0	1,593.0	1,823.0
B. SERVICES (net)	- 85.1	-155.0	-178.2	-185.0	-186.2
Foreign Travel	134.0	146.0	177.4	236.8	206.2
Investment Income	-202.6	-288.0	-339.5	-407.3	-382.4
Other	- 16.5	- 13.0	- 16.1	- 14.5	- 10.0
C. GOODS & SERVICES (net)	-273.4	-381.2	-513.8	-460.0	-589.5
D. TRANSFERS (net)	80.0	110.0	130.0	150.0	170.0
Private	70.0	100.0	120.0	140.0	160.0
Official	10.0	10.0	10.0	10.0	10.0
E. CURRENT ACCOUNT	-193.4	-271.2	-383.8	-310.0	-419.5
F. ALLOCATION OF SDRs	10.0	10.0	10.0	-	-
G. NET CAPITAL MOVEMENTS ¹⁾	- 54.3	63.7	303.6	179.1	337.5
Official	43.0	85.7	60.3	32.8	28.7
Private (including net errors & omissions)	- 97.3	- 22.0	243.3	146.3	308.8
I. CHANGE IN RESERVES* Increase = minus)	237.7	197.5	70.2	130.9	82.0

*Change in BOJ net assets & in arrears

1) To be revised as additional financial arrangements are concluded.

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C. Relation of U.S. Assistance to Jamaica's IMF/IBRD Program: To obtain a major portion of the additional resources needed to finance its economic program, the Government in mid-November initiated discussions with the International Monetary Fund and the International Bank for Reconstruction and Development. These preliminary discussions led to formal negotiations that began December 8 in Kingston on an Extended Fund Facility loan from the IMF and 2 large loans from the IBRD. These negotiations have yet to be concluded. It is expected, however, that an IMF program could be in place by April 1, 1980 and an IBRD program soon thereafter. In the meantime, the Government looks to the \$40 million in U.S. assistance to help pay for urgently needed imports during the first quarter of 1981 and to provide local currency financing of its development budget during the fiscal year beginning on April 1, 1981.

The U.S. assistance proposed in this document complements the IBRD program, therefore, by serving as a financing bridge to the funds to be provided by the IBRD for imports. As discussed in the previous section on the balance-of-payments outlook, the Government will be unable to finance even a minimal level of imports during the first quarter of 1981 without the early availability of the U.S. assistance. After April 1, the Government will hopefully have available to it funds from the IBRD and from other bi-lateral donors for continued import financing.

The U.S. assistance also complements the IMF lending program. Given the current condition of Jamaica's external finances, the resources to be made available by the IMF--even on the scale now contemplated --will be unavailable for the financing of imports or for budgetary support of the Government. Rather, IMF resources will have to be used almost exclusively for the liquidation of large external arrearages, for the repayment of the Bank of Jamaica's external liabilities, and for the rebuilding of its liquid foreign exchange reserves to minimum working levels. The U.S. assistance, on the other hand, will be available prior to the disbursement of the first tranche of IMF funds for the financing of urgently needed imports and, through the local currency generations, for the financing of development programs which are necessary for sustained economic growth in Jamaica. This local currency financing will help the Government avoid the pre-empting of an excessive amount of private savings which would otherwise be available for private investment and also avoid the alternative of financing its budget deficit by inflationary unbacked borrowing from the Bank of Jamaica. Restrictions on deficit financing of the GOJ budget are certain to be an essential part of the Government's agreement with the IMF. Only with these restrictions and the assumption of alternative financing of the budget deficit can the Government and the IMF expect any positive growth of the Jamaican economy in the foreseeable future.

IV. PROPOSED U.S. ASSISTANCE

A. Urgency of Need:

The analysis above shows that the Jamaican economy has suffered considerably over the past several years because of the unavailability of sufficient foreign exchange and budgetary resources, that election of a new government on October 30, 1980 has created a situation in which both Jamaican and foreign private businessmen are willing to make significant investments in Jamaica, and that the new government is developing an economic program which, by taking advantage of these private initiatives, could begin to reverse the negative trends of recent years. However, because the new government does not have the internal or external resources necessary to finance this recovery program, economic deterioration continues despite the broad base of public support the government now enjoys. The Government of Jamaica is thus in urgent need of external capital assistance and budgetary support.

Since the election of the new government, one of its most pressing concerns has been to obtain the foreign exchange needed to purchase the spare parts, the agricultural and industrial raw materials, and the capital goods essential to increase production and exports. At the same time, it has had to use much of the limited foreign exchange available to it to meet foreign debt obligations. It has had both successes and setbacks in its efforts to obtain additional financing but the overall result to date has been disappointing and the level of economic activity continues to decline. The government had hoped to obtain some \$58 million in new credits through the Venezuelan oil facility in November but now expects to receive only some \$18 million and will have to use the bulk of this to repay an existing loan from Venezuela. The government negotiated with several foreign commercial banks for \$100 million in immediate financing for imports, but was able to reach agreements for only \$40 million. In the face of this insufficient financing and a continuing resolve to meet all external debt payments, the government has been forced in November and December to cut back its allocations for imports from already dangerously low levels in order to maintain the solvency of the Bank of Jamaica. Unless significant new financing is made available to the government early in the new year, even more drastic cuts will have to be made beginning in January and there is a very serious threat that by February, for the first time, the government will be forced to default on its international debt obligations.

Because of the continued lack of badly needed imports, the Jamaican economy has at best stagnated and more probably has continued to deteriorate since the new government took office. Unemployment resources, both human and physical have not been put to work. This situation, if allowed to continue much longer, could lead to serious social unrest and cause further long-term damage to the economy.

Much of the external financing needed will eventually come from the International Monetary Fund, the Bank for International Reconstruction and Development, bilateral donors, and private investment. By far the largest component of this package will be IMF credit but even the first portion of IMF funds and most of the other financing which is now expected will not be available to the government until April, after the IMF Executive Board has approved an agreement with the government. In the meantime the government has been forced to call for the payment in December of the bauxite levy of almost \$50 million due on January 15, 1981 in order to meet its December external obligations, and has been unable to identify the resources needed to meet its January, February, and March external obligations. This means that unless other sources of financing for imports can be tapped almost immediately, there is a great risk that the government will face the choice by mid-January of either halting payments for imports or defaulting on its external debt payment obligations. Either course would seriously delay or totally halt the government's efforts to implement the sound policies which would produce a rapid rehabilitation of the economy and would seriously erode if not totally destroy the new sense of confidence that private investors have in Jamaica.

For this reason the \$40 million U.S. assistance should be made available at the earliest possible date. We do not recommend tying these funds to the IMF agreement for the following reasons:

1. The GOJ needs the funds by late in January or early in February if it is to avoid default on its debt; or if it is to secure a refinancing of the debt; or if it is to develop renewed lines of credit for essential imports; or if it is to keep and further stimulate the private sector confidence so crucial for the Seaga Government's economic recovery program.
2. It is possible that the Letter of Intent with the IMF will not be in place at that time.
3. There is no evidence that the additional leverage provided by U.S. assistance is crucial to either further encourage the inevitable IMF agreement or to significantly alter its terms.
4. We are unaware of any additional significant resources available to the GOJ at this crucial point in time.

B. Objectives

There are four basic objectives of this U.S. assistance to Jamaica: rapid disbursement, and the stimulation of production, exports, and employment. Stated another way, the purpose of the U.S. assistance is to contribute to the fastest possible recovery of the Jamaican economy and to help establish a solid base for sustained long-term growth. Achievement of these objectives requires that the foreign exchange be made available on an urgent basis.

C. Inflationary Impact of U.S. Assistance

Both the immediate real effect and the monetary effect, which would also create a real impact of the proposed U.S. assistance, will tend to hold down price increases if the loan is structured as recommended in this document.

The immediate real impact: The foreign currency aspect of the U.S. assistance will finance the import of increasingly scarce but essential goods. The increased availability of these goods will begin to reduce the scarcity premiums which have had to be paid. Second, these new imports --mostly spare parts, raw materials, and capital goods--will enable increased local production of consumer goods. This will have second round impact as these additional products also alleviate the supply shortages.

The monetary impact: The first round impact of the U.S. assistance will tend to be deflationary. Sale of the U.S. dollars will generate a Jamaican dollar credit to the GOJ at the Bank of Jamaica. Initially, these funds will be totally sterilized by the GOJ. The deflationary aspect of this reduction in money circulation in the economy would be reversed if the Government used the money to finance a higher level of spending than it would have otherwise. This will not be the case with the proposal made in this document as the counterpart funds will be used entirely for the financing of already budgeted programs and will be spread over the entire JFY-81/82, which begins on April 1, 1981. Thus, the availability of local currency funds will reduce the Government's credit requirement.

D. Proposed FY 1981 Assistance

The Mission is proposing an approximately \$60 million assistance package in FY 1981 for the Government of Jamaica, composed of the following:

- a) \$40 million ESF loan
- b) \$10 million PL-480 Title I commodities
- c) \$3 million ESF grant for special technical assistance requirements
- d) \$7 million for Caribbean Development Facility III in Jamaica (already authorized)

The size and composition of this assistance package has been developed to demonstrate strong U.S. Government support to the new Seaga administration and to provide significant resources for the GOJ's economic recovery.

1. Program Loan

The \$40 million to the Government of Jamaica from the Economic Support Fund approved by the U.S. Congress and the Administration is designed to provide rapidly disbursing foreign exchange and local currency in order to promote increased production, exports, and employment. The loan is the largest and most important part of the U.S. assistance package for Jamaica.

USAID initially considered the possibility that the ESF loan be provided in the form of a Commodity Import Program (CIP). Further analysis has indicated, however, that a CIP would not be the most appropriate assistance instrument.

First, and most importantly, a CIP would not provide the quick disbursing balance-of-payments support which Jamaica so urgently requires. A.I.D.'s prior experience in Jamaica with the 1977 CIP loan indicates that significant delays can be expected. Loan disbursements under the 1977 loan required 18 months to be fully disbursed. Some of the balance of payments impact originally intended was thereby lost. (For a detailed evaluation of the 1977 CIP Loan see Annex B.)

Second, balance-of-payments support for Jamaica is not expected to extend for more than two years. For this limited period, it would not be cost-effective to train Jamaican Government or private sector personnel in CIP procedures and to establish the various mechanisms required to implement a CIP.

Third, the establishment of a CIP would impose an administrative burden which Jamaica would find difficult to bear at the present time. The Government's bureaucracy is already seriously short of trained personnel to carry out existing programs and the addition of new requirements would further increase the strain on the public service.

USAID, therefore, proposes to utilize the Cash Transfer mechanism established in A.I.D. Handbook 4 and to provide loan funds as lump-sum transfers. As provided in the loan agreement, these funds would be utilized to finance a broad range of eligible imports needed by the private and public sectors.

The bulk of these funds will be used for the purchase of the spare parts, the raw materials and other inputs, and the capital goods required to generate increased production, exports, and employment. As Jamaica could be facing a severe food crisis by the time the ESF loan is available, it is also possible that some of the funds will have to be used for food imports as an adequate food supply is essential for the achievement of the basic objectives of the U.S. assistance.

The fact that the foreign exchange provided by the ESF will be used to support the Government economic recovery program is not, however, the only guarantee which exists for the proper utilization of the U.S. Government funds. USAID will share responsibility with the Jamaican Government for programming the equivalent of \$40 million in local currency which will be utilized to support the continuing, longer-term growth of the Jamaican economy.

2. PL 480 Title I

The U.S. has already provided \$43 million in PL 480 Title I food commodities during the FY 77-80 period. The FY 81 Title I projected level is at least \$10 million for importation of corn, wheat, rice, edible oils, and blended foods. These commodities are essential to ensure an adequate food supply in Jamaica and to generate local currencies in support of the GOJ's development programs. Balance of payments assistance will also be provided by the PL 480 Title I Agreement, which is scheduled for signing during the second quarter of FY 1981.

3. \$3 Million ESF Grant

A \$3 million grant in Economic Support Funds is required to provide technical assistance, training and studies addressing key bottlenecks to private sector recovery. These bottlenecks relate to such areas as: improvements in management of infrastructure (ports, airports, telecommunication); improvements in management of key public enterprises; rationalization of various agencies involved in promoting exports, particularly nontraditional ones; tourism expansion; and feasibility studies. These ESF grant funds are required to make the \$40 million ESF loan fully effective and will be submitted in a separate PAAD or PP during the second quarter of FY 1981.

4. \$7 Million CDF III Loan

In a recently authorized FY 1981 third replenishment of the Caribbean Development Facility, \$7 million has been programmed for Jamaica to support local currency requirements of other donor assistance programs.

These loan funds further support the GOJ's economic recovery program and, as such, form an integral part of the U.S. assistance package proposed for FY 1981.

V. THE PROGRAM

A. Foreign Exchange and Local Currency Programs

1. Use of Foreign Exchange Funds - Given the objectives of U.S. assistance to provide rapid disbursement and the stimulation of production, exports, and employment, the foreign exchange component of the U.S. assistance program will be used to finance Jamaica's most urgently needed imports during the period of time before other foreign assistance becomes available. Included would be imports of spare parts, industrial and agricultural raw materials and other inputs, and capital goods. Some food commodities may also be included. These imports will provide the necessary ingredients for greater utilization of Jamaica's productive potential. Funds shall not be used for the procurement of military equipment or services of any kind, or for the procurement of non-food consumer goods.

2. Use of Local Currency Funds

a. Use of Prior Generated Local Currencies

Local currencies in the amount of J\$73 million generated under the FY 1978 Commodity Import Program (CIP) loan and the FY 1978 through FY 1980 PL 480 Title I agreements have been allocated in accordance with a Memorandum of Understanding signed in March 1978 between the GOJ and U.S. According to that Memorandum it was agreed that generated local currencies would be utilized in the sectors of agriculture, nutrition, health and population, education and housing placing emphasis on improving the lives of the least privileged segments of the population in Jamaica and on improving their capacity to participate in the development of the country. Priority in assignment of the local currency would go: first, to support of ongoing projects being assisted by USAID; second, to support of activities which would facilitate programs being considered for USAID assistance; third, to support activities which would complement such ongoing or proposed programs; and fourth, to support other high priority development projects for Jamaica as agreed between USAID and the GOJ. A tentative list of activities to be supported was attached to the Memorandum.

Programming and utilization of these local currencies have been reviewed periodically since. The latest allocation which reflects actual disbursements against JFY 78/79 and JFY 79/80 and proposed disbursements against the current JFY 80/81 is shown in Table VIII. See Annex A for GOJ proposal regarding additional allocations for the current Jamaican fiscal year which are included in Table VIII. With this latest GOJ proposal, all the J\$73 million generated by the CIP and PL 480 Agreements to date will have been expended by March 31, 1981 - the end of the current GOJ fiscal year.

TABLE VIII

ALLOCATION OF LOCAL CURRENCIES GENERATED
UNDER FY1977 CIP LOAN AND PL480
AGREEMENTS FY77-FY80

(Revised as of December 1980)

(J\$ millions)

Sector/Activity	Allocations from Special Accounts		
	1978/79 Actual	1979/80 Actual	1980/81 Estimate
A. Agriculture & Rural Development			
Integrated Rural Development	1.216	2.015	2.300
Inland Fish Production System	0.545	0.565	1.500
Rural Roads Improvement	1.267	1.000	--
Marketing Improvement	0.350	0.200	--
Agricultural Census	0.910	0.450	--
Small Enterprise Dev./M.S.U. (Off Farm Emp.)	0.100	0.100	--
Rural Financial Markets/O.S.U.	--	0.030	0.078
Agricultural Planning	0.075	0.005	0.600
Agricultural Research, Extension and Education	0.300	0.100	0.100
Farm System Development	0.100	0.178	--
Expansion of Blue Mountain Coffee	--	0.662	0.662
Agricultural Marketing Development	--	--	0.300
Agricultural Marketing Development, road Construction and Improvement (Parishes)	--	--	3.000
Jamaica School of Agriculture	--	--	2.366
Sub.	<u>4.863</u>	<u>5.305</u>	<u>10.906</u>
B. Education & Human Resource Development			
Rural Education Sector Loan	--	5.537	3.500
Manpower Planning, Training & Employment	--	0.260	0.991
Project Development Resource Team (PAMCO)	--	0.120	0.400
Special Education for Handicapped	0.056	0.056	0.040
In-service Curriculum Training	--	0.073	0.100
Training for Development	--	--	0.250
Vocational Training	--	--	13.405
Sub.	<u>0.056</u>	<u>6.046</u>	<u>18.696</u>

Sector/Activity	Allocations from Special Accounts		
	1978/79 Actual	1979/80 Actual	1980/81 Estimate
C. Health, Nutrition and Family Planning			
Family Planning Services	2.018	--	3.779
Health Improvement for Young Children	0.009	--	0.305
Vital Statistics (VISTIM)	0.036	--	0.184
Emergency Feeding Program	0.083	--	0.058
Client Data System	--	--	0.462
Contract Assistance to Central Foods	--	--	0.510
Health and Nutrition Sector	--	--	4.100
Development			
Primary Health Care	--	--	5.527
	<u> </u>	<u> </u>	<u> </u>
Sub.	2.146	--	15.447
D. Urban Development and Housing			
Urban Upgrading	0.254	0.725	1.500
Squatter Settlements	<u> </u>	<u>0.966</u>	<u>6.100</u>
Sub.	0.254	1.691	7.600
TOTAL	7.319	13.042	52.639
GRAND TOTAL			73.000

b. Use of Local Currencies Generated by the \$40 Million Loan

Upon disbursement of the \$40 million the equivalent in local currency, or approximately \$71.2 million Jamaican dollars, will be generated under the ESF loan along with the proceeds from FY 1981 PL 480 Title I Agreement for \$10 million. The PL-480 Title I local currency generations will be deposited in a Special Account in the Bank of Jamaica and will be used to finance the local cost requirements of on-going and new USAID development projects. The local currencies from the \$40 million cash transfer will be used to support the Government of Jamaica's efforts to restore economic growth and provide the basis for longer-term development. These funds will be allocated within the GOJ's 1981/82 capital and recurrent budgets and will be disbursed during the twelve-month period, April 1, 1981 through March 31, 1982. Disbursements of these local currencies will be attributed against three general categories of assistance as follows:

- The first category will support projects being assisted by USAID which are not financed by the local currencies generated under the FY 1981 PL-480 Title I Agreement;

- The second category will finance counterpart requirements of other donor financed on-going projects that will not be covered by the Caribbean Development Facility Loan III;

- The third category will finance both capital and recurrent budgets of GOJ programs in the agriculture, health, education, housing, and energy sectors.

The illustrative allocations of local currencies under the \$40 million cash loan are described by category in Table IX on the next page. The GOJ has submitted an illustrative allocation for these local currencies by project within its 1981/82 budget. (See Annex C).

TABLE IX

PROPOSED ALLOCATION OF LOCAL CURRENCIES

GENERATED UNDER THE US \$40 MILLION LOAN
(J\$ THOUSANDS)

	<u>J\$M</u>
I. ONGOING AID PROJECTS	2,000
II. ONGOING OTHER DONOR PROJECTS	18,000
III. ONGOING GOJ PROGRAMS	55,000
A. Agriculture programs (e.g. land settlement, research, irrigation, food crops, livestock, crop disease control, forestry development, fisheries soil conservation, small farmer credit, etc.)	(40,000)
B. Health services (e.g. hospital services, public health services)	(9,000)
C. Education programs (e.g. primary and secondary education, vocational training, revolving student loan funds)	(5,000)
D. Energy development	(1,000)
Total	<u>J\$ 75,000</u>

c. Alternative

Given the potential inflationary impact of rapid disbursement of the local currency generated by the U.S. program loan, USAID has analyzed the merits of depositing the proceeds in a blocked (sterilized) account.

1. The IMF is expected to approve the creation of a parallel market for foreign exchange which will provide a mechanism for moderating the inflationary impact of domestic credit expansion;

2. The GOJ/IMF negotiated targets on the total public sector budget will be extremely restrictive. The government has already announced that it will not be able to initiate any new public sector investment projects during Jamaica's upcoming fiscal year (April 1, 1981 - March 31, 1982) which are not totally financed from external resources. Even counterpart funds for ongoing public sector projects may be restricted pending an assessment of revenue collection performance. Continuation of many ongoing investment projects is an important contribution to restarting economic growth in the country. Based on a review of the public sector investment portfolio completed by the IBRD and IDB on December 16, 1980, it is expected that a Caribbean Group donors meeting will be called early in CY 1981 among other things to review the relative priority of these projects. Only if the GOJ were expected to disagree with the process, or results of this effort, and proceed to exacerbate the domestic budget deficit to finance other investments, should some further consideration be given to restricting, or sterilizing use of local currency generations.

B. Implementation Arrangements

Through the Cash Transfer mechanism, the loan will be disbursed directly to an account of the Bank of Jamaica at a U.S. bank designated by the GOJ, upon satisfaction of initial Conditions Precedent. This disbursement will be made based on a financing request (AID Form 1130-2) submitted to the Mission Director, USAID/Jamaica.

Disbursements of local currency generations will be attributed according to the three eligible categories of assistance described on page 25. The GOJ will eventually inform the Mission of actual disbursements made during the twelve month period. The timing and format for such reporting will be established by implementation letter. The GOJ will also covenant to provide a list of the types of commodity imports against which the government will attribute the U.S. dollars.

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3A(1) - COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? No.
 2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? GOJ is not controlled by the international Communist movement.
 3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? No.
 4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
 5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? No.
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6. FAA Sec. 620(1). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? **No.**
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? **No.**
8. FAA Sec. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? **An investment guaranty agreement is in effect.**
9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, **No such action by Jamaica.**
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by AID Administrator?
10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default? **No.**
11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).) **Approximately 2% of recent budgets have been used for military expenditures. Approximately \$200,000 in FX has been spent for military equipment in the past 12 months. No sophisticated weapons systems have been procured.**

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A.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? Not in arrears.
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base? No such military base in Jamaica.
16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No.
17. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? No. Jamaica is not a "nuclear-weapon state"
18. FAA Sec. 301. Has the country denied its citizens the right or opportunity to emigrate? No.

B. FUNDING CRITERIA FOR COUNTRY1. Security Supporting Assistance Country Criteria

- a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section?

Department of State has not determined that Jamaica has engaged in gross violations of human rights.

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B1

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

Yes.

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N.A.

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.

Yes.

b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs?

Yes. An ESF grant of \$3.0 million for technical assistance to support the economic recovery program is being proposed.

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

Department of State has not found evidence of gross violations of human rights in Jamaica.

d. FAA Sec. 201(b)(5), (7) & (8); Sec 208; 211(a)(4), (7). Describe extent to which country is:

- (1) Making appropriate efforts to increase food production and improve means for food storage and distribution.
- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.
- (3) Increasing the public's role in the developmental process.

These are all announced priorities of the newly elected government.

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3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Assistance specifically authorized by Congress and processed as supplement to Continuing Resolution.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N.A.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Loan will provide foreign exchange for increased imports, including equipment and materials to enable private firms to expand production and initiate productive activities

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A.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The assistance will promote trade linkages with U.S. and increased U.S. imports.

6. FAA Sec. 612(h); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

GOJ budgets and provides counterpart funds and Mission periodically reviews level of contributions with Ministry of Finance and operating Ministries.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

Will assist Jamaica in meeting present critical foreign exchange deficit, thereby permitting import of essential food, as well as materials and equipment for productive activities.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 291a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N.A.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

N.A.

REGULATORY EVALUATION AND EVALUATION

I. KEY PROJECT IMPLEMENTATION DATES			E. ESTIMATED PROJECT FUNDING		7. PERIOD COVERED BY EVALUATION	
A. First FACED or EQUIPMENT FY <u>77</u>	B. First Operation Expansion FY <u>77</u>	C. First Input Receipts FY <u>78</u>	A. Total	\$ <u>9.5 M</u>	From (month/year)	November, 1977
			B. U.S.	\$ <u>9.5 M</u>	To (month/year)	June, 1979

II. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues (cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
(1) Verification by SER/COM that \$5.5 million worth of commodity transactions, for which documentation was submitted by the GOJ in June, is eligible for reimbursement under the second "phase" of the loan.	SER/COM	Sept. 1

<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan w/ CPI Network	<input type="checkbox"/> Other (Specify)	10. A. <input checked="" type="checkbox"/> Continue Project Without Change
<input type="checkbox"/> AID/W Report	<input type="checkbox"/> PID/T		B. <input type="checkbox"/> Change Project Description
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PID/C	<input type="checkbox"/> Other (Specify)	C. <input type="checkbox"/> Change Implementation Plan
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PID/P		C. <input type="checkbox"/> Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Paul W. Weinger, Capital Resources Development Officer
 Ruby A. Johnson, Capital Development Specialist
 Rupert Straw, Director of Operations - Bank of Jamaica
 Headley Brown, Trade Administrator
 Clark Joel, Economic Advisor
 Henri Johnson, Acting Assistant Director

12. Mission/AID/W Office Director Approval

Signature: _____
 Typed Name: DONALD M. LITON
 Date: _____

COMMODITY IMPORT PROGRAMSummary

In the eighteen months of the Commodity Import Program (CIP) Loan operation, generally satisfactory progress has been achieved in meeting the goals set in the Program Paper. All funds under the loan have been committed and delivery of virtually all goods made; only documentation sufficient to meet A.I.D.'s stringent requirements remains to be completed, plus some residual importations under the Special Letter of Credit (SLC) which was used as the financing mechanism under the first phase of the loan.

As of June 15, commodities valued at US\$3.7 million had been received in country by Jamaican importers as against US\$4.0 million of subsidiary Letters of Credit (Sub-L/Cs) issued under the SLC. Additional goods were apparently in transit, although uncertainties concerning documentation flowing from the U.S. supplies, shippers and banks left the picture unclear. In December, 1978, the remaining \$5.5 million of the loan was advanced to the GOJ with documentation to support the advance to be submitted by the GOJ prior to the TDD. The GOJ as of June 15 had submitted US\$7.6 million worth of documentation which was preliminarily reviewed by the Mission as to eligibility of transactions and forwarded to AID/Washington (SER/COM) for verification.

Commodities imported under the SLC phase of the loan, plus those initially acceptably documented or submitted for documentation against the advance, can be broken down into five major component categories as follows:

Table I (in Thousands of US\$)

Raw Materials for manufacturing industry	3,300.8	34.6%
Raw Materials for construction	385.6	4.0%
Raw Materials for agriculture	3,439.9	36.0%
Capital goods for manufacturing industry	2,306.3	24.1%
Capital goods for agriculture	<u>121.9</u>	<u>1.3%</u>
	\$9,554.5	100.0%

The CIP has had a substantial impact on both value added and on the maintenance of employment. Without programs such as the CIP and other lines of credit, the reduction of economic activity and employment in 1978-79 would almost certainly have been much more serious. While elements in the private sector have pointed to certain A.I.D. limitations which they think made the program less helpful than it could have been, on balance A.I.D. finds most of these restrictions necessary in assuring procurement at reasonable prices. Provision for relaxation of the rules in special justifiable cases should be considered in the event of another CIP Loan.

Evaluation Methodology

This is the first program evaluation. Its purpose is to measure actual progress against program targets and determine what additional measures can be taken by both the GOJ and USAID/Jamaica to resolve implementation problems.

Discussions and meetings were held between the staff of the Capital Development Office, AID/W Procurement Officer, Mission Director and Officials of the GOJ, including the Trade Administrator, Dr. Headley Brown, Governor of the BOJ, Honorable Herbert Walker, BOJ Director of Operations, Mr. Rupert Straw, and the Minister of Finance, Honorable Eric Bell. There was, in addition, lengthy correspondence between the Minister of Finance and the Mission on

the status of the program.

A thorough review of all program documents and monthly reports was also undertaken by the Capital Development Office.

Purpose/Goal

The program purpose was to assist Jamaica to relieve its balance of payments gap in 1978-79 by financing imported agricultural and industrial inputs which would help increase or maintain production and generate or preserve employment in the short term. The loan was directed at alleviating Jamaica's immediate financial crisis and was also designed to help support longer term development objectives. Local currency generated under the program was deposited in a special account in the Bank of Jamaica to be used for development activities in the Agriculture, Nutrition, Health, Population and Housing sectors as agreed on between the Government of Jamaica and AID.

Implementation

Procurement of goods under the CIP was restricted to US source and origin and allocation of funds determined, within the parameters of the loan's purpose, by the Government of Jamaica (GOJ) through the existing import licensing system.

Under the initial \$4.0 million "SLC phase" of the loan, the prospective importer, after obtaining the import licence, provided the Mission with specifications of the commodity to be imported. This description was published by AID/W in the Procurement Information Bulletin for a 30-day period, during which offers were solicited from the US trade. The importer then selected the best offer and entered into a contract with the supplier, after meeting the requirements of the Bank of Jamaica (BOJ). The BOJ then requested their correspondent bank, the Manufacturers Hanover Trust Company (Mantrust) to open a Sub-L/C in favor of the supplier.

Payment was to be effected as soon as the goods were shipped and documentary requirements of the Sub-L/C met by the supplier.

Under the \$5.5 million "Advance phase" of the loan, initiated in December 1978, the GOJ was to submit to AID documentation to support the advance prior to the TDD. These documents included non-pay vouchers totalling the amount of the advance evidencing purchase of new United States source and origin commodities and/or services (Standard Form 1034), Suppliers Invoices with evidence of payment, Bills of Lading or delivery receipts and AID Form 282 completed by the Supplier. A.I.D. reserves the right to reject any documentation submitted for transactions not deemed eligible for financing under the loan, and in such event the GOJ will submit for A.I.D. approval additional transactions at least equivalent to any amount rejected. Emphasis was placed on raw materials and intermediate goods as procurement of capital goods often requires considerable lead time.

Problems and Solutions

Deliveries of commodities under the first, "SLC phase" of the loan have been generally satisfactory although documentation and reporting to importers and the BOJ have been slow. This lag has been due primarily to the fact that documents such as Bills of Lading often do not arrive along with shipments due to unreliable mail service. This is not, of course, a problem unique to A.I.D.'s C.I.P.

Disbursements, which are supposed to be based on the date of shipment of goods, have also lagged behind actual delivery of goods in Jamaica, due to lengthy delays in the US banks' handling of documents for payment. Mantrust in one case has been cited as requiring over six weeks for the processing of such documents. Further delays were caused by the tardiness of the BOJ in furnishing documentation or setting up satisfactory Sub-L/C's in a timely manner.

BEST AVAILABLE DOCUMENT

As perceived by some elements of the private sector, availability of exchange under the C.I.P. was attended by a number of rules and regulations which rendered its utilization difficult, involved significant delays and increased the cost of doing business. Features that the private sector pointed out as being particularly onerous included the requirement to obtain bids from more than one supplier before an order could be placed. Many businesses have long established relations with particular suppliers that have provided them with the equipment, spare parts or materials that they need. They found it inconvenient (and perhaps risky) to change suppliers. They also assert that the delays that the bidding procedure entails are detrimental to the conduct of their business.

A.I.D.'s requirements for 30 day publication in the rather slow moving and limited circulation Procurement Information Bulletin may have slowed down processing of some letter of credit openings initially, although this was later speeded up by a temporary waiver of these requirements when publication could not be effected and the use of emergency procurement procedures for some transactions. Use of the Commerce Business Daily in other procurement situations has been considerably more satisfactory. Another consideration related to the financial deposit requirements imposed by the BOJ on all transactions, including those under the C.I.P. To protect itself against the risk of nonpayment of obligations, the BOJ required a commercial bank guarantee (or cash deposit) by the importer before approving a foreign exchange release under the C.I.P. The commercial bank in turn required its customer to deposit the full amount applied for; alternatively, the customer had to obtain a loan for that amount. In either case, and again this is not unique to the C.I.P., interest had to be paid and working capital funds tied up long before the goods arrived.

BEST AVAILABLE DOCUMENT

While the private sector did not seem particularly concerned with this aspect, being largely content to carry on in their accustomed manner, purchasing under the C.I.P. offered the opportunity of saving scarce foreign exchange. Not only did it require competitive solicitation by the buyer, but it offered the seller, who received immediate payment when goods were shipped, the opportunity to eliminate from his price the risk or cost of credit element most usually built into prices of goods imported into Jamaica.

The substitution of ex-post documentation under the advance disbursement disassociated A.I.D. from the actual disbursement of remaining funds. Since procurements, even though they included A.I.D. documents, were being made with Jamaican foreign exchange, the requirements for 30 days publication in the A.I.D. bulletin and competitive bidding were eliminated. There was still, however, the problem of obtaining import licences from the Trade Administrator's Department (T.A. Dept.).

The slowness of the T.A. Dept. in approving licence applications contributed to delay in both phases in the utilization of loan funds. There were, of course, the extenuating circumstances of severe competing pressures on the T.A. Dept. because of major and frequently shifting shortages in virtually all sectors of the economy, causing a need for periodic changes in emphasis in allocation of trade licences. This, along with inadequate staffing and insufficient delegation of authority, led to slowness in the entire licencing procedure.

The unfamiliarity of the staffs of the BOJ and T.A. Dept. with A.I.D. regulations, in spite of the Mission's frequent instructions, and the tardiness and frequent changes of plans by importers themselves (e.g. dropping C.I.P. for Suppliers' Credits, etc.) also contributed to delays in loan implementation.

The BOJ moved slowly in meeting the document submission schedule provided by the December 1978 advance disbursement understanding. The implementation deadlines requiring \$2.0 million of the documents by January 31, and \$4.0 million by March 31, passed without submissions. Their all-out effort in May and June to meet the original TDD of June 15, 1979, unfortunately encountered severe difficulties in satisfying the A.I.D. 50:50 shipping regulation. Problems included unavailability of US ships, the higher cost of shipping to Jamaica by US ships, and the 50:50 sub rule that liner, bulk, and tanker shipments must be counted separately, not to mention the fact that in each category both value and tonnage must satisfy the rules. SER/COM has been trying to help meet the requirements, but an extension of the TDD was nevertheless necessary.

External Factors

In view of Jamaica's critical shortage of foreign exchange it was originally anticipated that the loan funds would be more rapidly utilized than turned out to be the case. In addition to the above cited internal problems, the initial delays in utilization of the funds were also partly due to factors external to the project itself.

There was the difficulty of getting suppliers of commodities to complete A.I.D. Form 282 and furnish all documentation necessary to comply with requirements of the advance disbursement. This is because many of the suppliers were unused to those regulations in their usual transactions and regarded them as an unnecessary burden.

Frequent strikes in vital services such as postal and dock workers in 1978 - 1979 also contributed to slow progress in utilization of funds.

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Beneficiaries/Achievements

The commodities imported under the loan made a substantial positive contribution to Jamaica's overall development and effectively benefitted the entire population by providing foreign exchange to help sustain the economy. Loan financed importation of raw materials for industrial and agricultural utilization prevented a further downturn in production in crucial sectors of the economy and, in the case of capital equipment, generated increased employment opportunities due to plant expansion. Thus the C.I.P. had a substantial impact on both production and employment.

On the production side, the Mission Economic Advisor used a conservative multiplier of 1.7 in his macro-economic calculation formula to determine that the approximate total value added resulting from the US\$9.5 million of loan funded imports was US\$16.2 million. Coupling this figure with equally conservative value added per worker calculations, the employment effect of the C.I.P. loan showed the preservation/creation of approximately 1,500 jobs each in the industrial and agricultural sectors. The study has been added to this evaluation as Annex I.

The loan will be important contribution towards the December 11, 1978, advance disbursement of US\$5.5 million, to the ability of the Government of Jamaica to meet the IMF year end foreign exchange targets. The loan also helped to encourage additional loan assistance to Jamaica by other international lending agencies, such as the IBRD Program Loan and the Caribbean Development Facility.

And, finally, the local currency generated in the C.I.P. has been and is being used, along with PL 480 counterpart, to support a wide range of GOJ/AID approved development activities.

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Unexplained Effects

None

Lessons Learned

Implementation of the C.I.P. has necessarily involved certain trade-offs with both general and specific implications. This or any future C.I.P. loan would be faster disbursing and easier to utilize if A.I.D. and the Central Bank were to relax some of their regulations.

Most Jamaican importers were critical of the A.I.D. requirement for competitive procurement, advertising, etc., as this requirement frequently caused delays - at times substantial delays - and on some occasions prevented them from purchasing raw materials and machinery from their regular suppliers. Against this detriment, however, we must count the benefit of sometimes more favorable prices competitively obtained and of avoidance of much of the potential opportunity for collusive practices between importer and supplier to evade GOJ regulations (i.e. "over invoice" to get money out of the country).

The substance of the A.I.D. procurement procedure does not appear onerous: it is not, except for public enterprises, a rigid competitive bidding procedure. In the case of private sector procurement, it permits consideration of factors other than price, such as delivery schedules, compatibility with manufacturing processes, etc. The delay factor is a problem, however, for business accustomed to phoning in an order and receiving goods three days later. While emergency procedures can be used to good effect, a sounder practice would be to cut the advertising time to two weeks and use the Commerce Business Daily (instead of A.I.D.'s Procurement Information Bulletin). The Commerce Business Daily is more quickly disseminated through a wider audience and produces faster shipment of goods due to the understanding that rapid reaction time is essential. The one control we should not relax is verification of prices, to insure A.I.D. funds are not used to further violations of host country laws or regulations.

BEST AVAILABLE DOCUMENT

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The BOJ commercial bank guarantee requirement which compelled importers to deposit the full amount of the value of the merchandise at the time they applied for licenses often took a good bit of time to obtain, involved substantial interest costs and reduced the availability of working capital. Although it did serve to protect the BOJ against possible default on the part of the importer, this would only appear to be a risk in the case of an insolvent business ordering some product that could not readily be resold. In the future, we should consider requiring that such Central Bank requirements be limited to situations where there is substantial likelihood of both importer default and Central Bank loss on the transaction.

Lines of credit from one Government to another, necessarily administered in the manner of the C.I.P., can never be as flexible as private supplier credits or commercial bank loans. However, this is as it should be. Government to Government aid programs should only serve to complement, rather than attempt to supplant, the normal course of private enterprise activities. In this case, this Program did that job well despite starting from the beginning of the last year. Any follow on program would do better faster.

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June 11, 1970

Clark Joel, Economic Advisor ()

Rough Calculation of Impact of \$9.5 million Commodity Import Program (CIP) on Value of Manufacturing Production and Employment

Dr. Duor Lion, Director

Two methods of doing this come to mind. The first, a time-consuming procedure, is to relate the value of raw material utilization to total value added for each of the enterprises that benefitted from the CIP, then calculate the impact on value added of the materials provided under our CIP on the reasonable assumption that if we had not provided the foreign exchange, the production would not have taken place. This would be done firm by firm, and a parallel calculation would be made for capital goods. The employment effect would be measured by relating total value added by each firm to the existing labor force on the assumption that, without the foreign exchange provided under the CIP for the purchase of the raw materials and capital goods, employment would have been reduced proportionately².

Estimation of Value of Manufacturing Production Made Possible by the CIP

I have used a simpler macro calculation to arrive at a quick and rough answer. To estimate the impact of the \$9.5 million CIP on value added, I have, as a first step, broken down the CIP into its major component categories, as follows:

TABLE 1
(In Thousands of U.S. Dollars)

Raw materials for manufacturing industry	3,300.8
Raw materials for construction	385.6
Raw materials for agriculture	3,439.9
Capital goods for manufacturing industry	2,306.3
Capital goods for agriculture	121.9
	9,554.5

² Admittedly a challengeable assumption in a short-term analysis, since a number of firms probably would have been willing to carry the same labor force in spite of the production cutback as long as the latter was presumed to be temporary.

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The second step is to establish a ratio between these imports and value added for the latest year for which data are available (1977). This relationship is shown in the following table:

TABLE 2

(In Thousands of Jamaican Dollars)

	Imports	Value Added	Imports as % of Value Added
Raw materials for manufacturing goods and Agriculture, Forestry & Fishing	286.7	828.8	34.6
Materials for construction	70.3	174.4	40.3
Capital goods (other than transport equipment)	86.0	---	---
	443.0	1003.2	44.27

Thus, in 1977, the importation of raw materials for manufacturing, agriculture and construction, and the importation of capital goods other than transport equipment, constituted 44% of total value added by manufacturing industry, agriculture and construction. A multiplier factor is obtained by taking the reciprocal of 44%, viz. $\frac{1}{.44} = 2.27$.

Assuming that:

(a) the raw material inputs imported by AID were essential to the continued operation of manufacturing enterprises, i.e. they served to increase the value added in the manufacturing industry; and

(b) the ratio of raw materials to value added is the same for the beneficiaries of the GIF as for manufacturing, agriculture and the construction industries as a whole, the US\$9.55 million in commodity imports made possible a total value added calculated as follows:

$$\text{US\$9.55} \times 2.27 = \text{US\$21.7 million}$$

This figure may be on the high side. Allowance should be made for the possibility that other bottlenecks may have existed that would have prevented value added to reach this upper limit. Such bottlenecks might include availability of labor (strikes), breakdown of equipment, power outages, etc. A more conservative estimate would be based on a lower multiplier, say 1.7. Thus, the lower limit of the impact of the GIF on value added would be:

$$\text{US\$9.55 million} \times 1.7 = \text{US\$16.2 million}$$

B
ANNEX

The calculation of the employment impact is based on the assumption of a constant relationship between value added in manufacturing, construction and agriculture and the number employed in each of these industries. This assumption is, admittedly, very questionable for the short run. It is also assumed that this relationship is the same for the beneficiary enterprises as for the industry as a whole.

The relationship between value added and employment in manufacturing, agriculture and construction in 1977 is presented in Table 3. Note that value added per employed worker expressed in U.S. dollars is 6,022 in manufacturing, 4,332 in construction and only 254 in agriculture, forestry and fisheries (see last column). The average for the three industries is US\$2,258.

The calculation of employment generation is presented in Table 4. The first column shows the amount imported under our CIP program. The second column estimates the amount of value added generated by these imports on the assumption of a multiplier of 1.7 (this constitutes the lower end of the estimated range in our value added calculations). Dividing the value added figures in column 2 by the estimated amount of value added per employed worker arrived at in Table 3 yields the employment generation figures in column 3 of Table 4. Thus, the amount of employment generated by our importation of raw materials and capital goods for manufacturing industry was obtained as follows:

$$\begin{array}{r} \text{Total Value Added} \\ \text{Value Added per} \\ \text{Employed Worker} \end{array} \begin{array}{l} \text{US\$9,512,000} \\ \text{US\$ 6,022} \end{array} = 1.583 \text{ jobs}$$

The estimate for the number of jobs generated in the agricultural sector (7,090) should, in my view, be heavily discounted. There is not likely to be, in the agricultural sector, a constant relationship between value added and employment. The availability or non-availability of raw materials and capital goods in the agricultural sector is a major factor.

of the labor force than in the generation or maintenance of jobs. Thus, the 7,090 jobs "generated" in the agricultural sector should be interpreted as representing no more than the job equivalent of the value added generated by the raw materials and capital goods that our CIP made available to the agricultural sector. We suggest that the total employment generation of our CIP, in the form in generally understood, be scaled down to two to three thousand instead of the 8,800 indicated in Table 4.

Even with these qualifications, there can be little doubt that the CIP has had a substantial impact both on value added and employment. In view of the country's acute shortage of foreign exchange, this outcome is to be expected. The cooperant factors of production - plant, equipment and labor - were there. The key missing factor was the foreign exchange

Value Added, App. 1, 1977
In Manufacturing, Agriculture & Construction in 1977

	(1)	(2)	(3)	(4)
	<u>Value Added</u>	<u>No. Employed</u>	<u>Value Added per</u>	
	(in '000 of US)	(in Oct. '77)	Employed Worker	US\$
Manufacturing Industry	563,859	74,900	7,528	6,032
Construction	174,358	32,200	5,415	4,332
Agriculture, Forestry & Fisheries	264,927	248,300	1,067	854
TOTAL	1,003,144	355,400	2,821	2,258

TABLE 4

Employment Generated

	(1)	(2)	(3)
	<u>Imported under CIP</u>	<u>Value Added</u>	<u>Employment</u>
	(in '000 of US\$)	Generated (in	Generated
		'000 of US\$)	
Industrial Raw Materials & Capital Goods for Manufac- turing	5,607.1	9,532.0	1,583
Materials for Construction	277.1	411.1	100
Raw Materials & Capital Goods for Agriculture	3,561.8	6,055.1	7,100
TOTAL	9,554.5	16,242.6	8,824

to import essential raw materials, spare parts and capital goods for the
economy gains. Under these conditions, the GIP was bound to have
had a substantial leverage effect on both income and employment.

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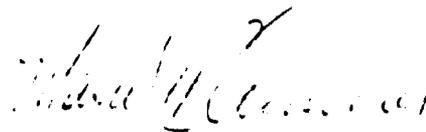
Mr. Harry Johnson
USAID Mission
Mutual Life Centre
2 Oxford Road
KINGSTON 5

Dear Mr. Johnson,

Please refer to our telephone conversation this morning regarding the allocation for the various USAID loans. Attached please find allocation in respect of:-

- (a) Additional 1980/81 allocation;
- (b) Allocation in 1981/82 re US\$40.0 million loan;
- (c) Allocation in 1981/82 re proposed PL 480 estimated at US\$8.5 million.

Yours sincerely,



Masie Plummer (Miss)
for Financial Secretary

PIA/EC Commodity Line Allocations of J\$ Equivalent1980Additional 1980/81 Allocation J\$44,281

<u>Project/Activity</u>	J\$m PL480 Support <u>1980/81</u>
A. Hospital Services	1,310
B. Public Health Services	1,023
C. Primary Health Care Services	26,177
D. Jamaica School of Agriculture	2,366
E. Vocational Training	<u>13,405</u>
TOTAL	<u>44,281</u>

Total J\$ generated under PL480/Commodity Line Reimbursement to date from Special Accounts	= J\$73.408M
Additional Reimbursement for FY 1980/81 of this allocation already submitted to US/AID	= J\$20.4M
Additions now submitted	= J\$53.008
	= J\$27.965
	= J\$44.281

- A.
1. involves expenditure on installation of air conditioning system in the Casualty Dept. of Cornwall Regional Hospital;
 2. complete construction of 150-bed extension at Victoria Jubilee Hospital;
 3. complete projects at Kingston Public Hospital;
 4. assist in financing construction of sewerage Treatment Plant at St. Ann's Bay Hospital.
- B. Assist in financing of new construction and capital improvement of Primary Health Care.
- C. To finance payment of staff and the expenses in Hospital and Health Centres.
- D. Payment of expenses incurred under the operations of the Jamaica School of Agriculture.
- E. To finance expenditure under the Vocation & Technical Schools, including Knockalva Agricultural School; Carron Hall Vocational School; Automotive Mechanics Training Centre.

18th December, 1980

Proposed Allocation in respect to J\$77.0M
generated under proposed US/AID Loan of
US\$40M

1981/82

<u>Ongoing</u>	
<u>US/AID Projects</u>	
	J\$M
Second Integrated Rural Development	4.400
Agricultural Marketing	1.000
Agricultural Planning	1.000
Inland Fisheries	2.000
Rural Education Sector	.500
Man Power Planning & Training	1.400
Squatter Upgrading	2.945
National Urban Upgrading	2.350
Sub-total	<u>15.595</u>
<u>Ongoing</u>	
<u>Other Institutional Projects</u>	
Agricultural Research	2.500
16 Rural Markets	2.400
Road Improvement & Maintenance	7.840
Sites & Services	5.655
Sub-total	<u>18.395</u>
<u>Ongoing</u>	
<u>Government of Jamaica Programmes</u>	
Development of Land Settlement	4.000
Crop Research	0.330
Coffee Borer Control	2.500
Nursery Production	3.500
Subsidy Assistance Programme	5.500
Crop Care Project	2.500
Food Farm Project	0.400
Agricultural Engineering Services	4.000
Minor Irrigation	2.000
Food Crops - Small Farmers Loan Programme	5.000
Livestock Research	0.600
Forest Development	2.750
Fisheries Development (offshore)	1.100

Ongoing	
<u>Government of Jamaica Programmes (Cont'd)</u>	
	J\$M
Soil Conservation Works	1.100
Farmers Training	
Farmers Training Centres	0.275
Farm Credit	2.973
Hospital Services	1.365
Public Health Services	7.337
Primary School Construction and capital requirement	1.025
Secondary Schools	.493
Vocational Training Centres	.740
Energy Development	.780
Student Revolving Loan Funds	2.500
Sub-total	<u>J\$ 52.768</u>
Total	<u>J\$ 86.758</u> -----