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

JAMAICA

**PROJECT PAPER**

PRODUCTION AND EMPLOYMENT VI

AID/LAC/P-277

Loan Number: 532-K-602  
Project Number: 532-0111

**UNCLASSIFIED**

**CLASSIFICATION:**

|   |  |  |                                  |
|---|--|--|----------------------------------|
| AID 1120-1<br>(8-66)  | <b>DEPARTMENT OF STATE<br/>AGENCY FOR<br/>INTERNATIONAL DEVELOPMENT</b>  | 1. PAAD NO.<br>532-0111                                | 532-K-602                        |
| <b>PAAD</b>   | <b>PROGRAM ASSISTANCE<br/>APPROVAL DOCUMENT</b>  | 2. COUNTRY<br>Jamaica                                  |                                  |
|   |  | 3. CATEGORY<br>Cash Transfer                           |                                  |
|   |  | 4. DATE<br>January 16, 1986                            |                                  |
| 5. TO:<br>A/AID, M. Peter McPherson   |  | 6. OYB CHANGE NO.                                      |                                  |
| FROM:<br>AA/LAC, Dwight Ink   |  | 8. OYB INCREASE  |                                  |
| 9. APPROVAL REQUESTED FOR COMMITMENT OF:<br>\$ 39,000,000                                   |  | 10. APPROPRIATION - ALLOTMENT<br>Economic Support Fund |                                  |
| 11. TYPE FUNDING<br><input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT | 12. LOCAL CURRENCY ARRANGEMENT<br><input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE | 13. ESTIMATED DELIVERY PERIOD<br>FY 86                 | 14. TRANSACTION ELIGIBILITY DATE |
| 15. COMMODITIES FINANCED  |  |  |                                  |

|  |   |
|--|---|
| 16. PERMITTED SOURCE<br>U.S. only: _____<br>Limited F.W.: _____<br>Free World: _____<br>Cash: 39,000,000 | 17. ESTIMATED SOURCE<br>U.S.: 39,000,000<br>Industrialized Countries: _____<br>Local: _____<br>Other: _____ |
|--|---|

**18. SUMMARY DESCRIPTION**

Production and Employment VI will approve \$43 million in grant Economic Support Funds. Of this amount, \$39 million are available after making allowances for the probable effects of the Gramm-Rudman-Hollings legislation. This amount will be disbursed immediately after the GOJ meets the standard Conditions Precedent (legal opinion, the designation of authorized representatives and a financing request). The purpose of the grant is to provide immediate balance of payments support to assist the Government of Jamaica in its economic recovery program and to encourage the GOJ to proceed with efforts to remove restrictions on the economy which hinder longer term development. An amount of dollars equivalent to the dollar amount of the grant will be made available to the private sector for the importation of spare parts, capital goods and industrial and agricultural inputs from the U.S. within one year of disbursement. Further, the GOJ will deposit the local currency equivalent of U.S. \$39 million in a special account for use on high priority development efforts of the GOJ, as mutually agreed.

|   |                |         |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
|---|----------------|---------|---------|-----------------------------|--|---------|------------------|--|---------|---------|--|---------|-------------|--|---------|-------|--|---------|-----------------------|--|---------|-----------------|--|--|---|
| 19. CLEARANCES<br><table style="width:100%;"> <tr> <td>LAC/DR, TBrown</td> <td>DATE</td> <td>1/16/86</td> </tr> <tr> <td>LAC/CAR, RHechtman (Acting)</td> <td></td> <td>1/16/86</td> </tr> <tr> <td>LAC/DP, WWheeler</td> <td></td> <td>1/16/86</td> </tr> <tr> <td>GC HFry</td> <td></td> <td>1/17/86</td> </tr> <tr> <td>PPC RDerham</td> <td></td> <td>1/17/86</td> </tr> <tr> <td>CJoel</td> <td></td> <td>1/16/86</td> </tr> <tr> <td>FM/CONT, CChristensen</td> <td></td> <td>1/17/86</td> </tr> <tr> <td>ARA/ECP, JPitts</td> <td></td> <td></td> </tr> </table> | LAC/DR, TBrown | DATE    | 1/16/86 | LAC/CAR, RHechtman (Acting) |  | 1/16/86 | LAC/DP, WWheeler |  | 1/16/86 | GC HFry |  | 1/17/86 | PPC RDerham |  | 1/17/86 | CJoel |  | 1/16/86 | FM/CONT, CChristensen |  | 1/17/86 | ARA/ECP, JPitts |  |  | 20. ACTION<br><input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED<br><div style="text-align: center;"> <br/>                     AUTHORIZED SIGNATURE                 </div> <div style="text-align: right;">                     1-17-86<br/>                     DATE                 </div> |
| LAC/DR, TBrown  | DATE           | 1/16/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| LAC/CAR, RHechtman (Acting)   |                | 1/16/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| LAC/DP, WWheeler  |                | 1/16/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| GC HFry   |                | 1/17/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| PPC RDerham   |                | 1/17/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| CJoel   |                | 1/16/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| FM/CONT, CChristensen   |                | 1/17/86 |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| ARA/ECP, JPitts   |                |         |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |
| TITLE   |                |         |         |                             |  |         |                  |  |         |         |  |         |             |  |         |       |  |         |                       |  |         |                 |  |  |   |

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INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01  
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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC IMMEDIATE 3473

UNCLAS SECTION 01 OF 15 KINGSTON 11859

AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E.O. 12356: N/A  
TAGS: EFIN, EAID, ECON, JM  
SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
- FOR FY 86 ESF GRANT TO JAMAICA

1. PAAD FACE SHEET, BLOCK 16: PRODUCTION AND EMPLOYMENT VI WILL PROVIDE AN ADDITIONAL U.S. DOLS 70 MILLION GRANT FROM ECONOMIC SUPPORT FUNDS. THE PURPOSE OF THE GRANT IS TO PROVIDE IMMEDIATE BALANCE OF PAYMENTS SUPPORT TO ASSIST THE GOVERNMENT OF JAMAICA IN ITS ECONOMIC RECOVERY PROGRAM AND TO ENCOURAGE THE GOJ TO PROCEED WITH EFFORTS TO REMOVE RESTRICTIONS ON THE ECONOMY WHICH HINDER LONGER TERM DEVELOPMENT. AN AMOUNT OF DOLLARS EQUIVALENT TO THE DOLLAR AMOUNT OF THE GRANT WILL BE MADE AVAILABLE TO THE PRIVATE SECTOR FOR THE IMPORTATION OF SPARE PARTS, CAPITAL GOODS AND INDUSTRIAL AND AGRICULTURAL INPUTS FROM THE U.S. WITHIN ONE YEAR OF DISBURSEMENT. FURTHER, THE GOJ WILL DEPOSIT THE LOCAL CURRENCY EQUIVALENT OF U.S. DOLS 70.0 MILLION IN A SPECIAL ACCOUNT FOR USE ON HIGH PRIORITY DEVELOPMENT EFFORTS OF THE GOJ.

2. IN ADDITION TO SATISFYING THE STANDARD CONDITIONS PRECEDENT INVOLVING THE SUBMISSION OF A LEGAL OPINION, THE DESIGNATION OF AUTHORIZED REPRESENTATIVES AND A FINANCING REQUEST, THE GOJ WILL ALSO COVENANT TO UNDERTAKE THE NECESSARY STEPS TO FACILITATE THE TIMELY PASSAGE OF ENABLING LEGISLATION CONSISTENT WITH THE OBJECTIVES OF THE BOARD OF REVENUE ASSISTANCE PROJECT.

TEXT OF PAAD FOLLOWS.

- PROGRAM ASSISTANCE APPROVAL DOCUMENT

- I N D E X

I. INTRODUCTION AND SUMMARY

II. ANALYSIS OF JAMAICAN ECONOMIC CONDITIONS

- A. THE ECONOMIC BACKGROUND
- B. THE PRESENT SITUATION: HARD TIMES AND A "FRESH LOOK"
- C. USAID STRATEGY FOR 1986 - 1987

III. CONCLUSION

APPENDIX I. FURTHER MACROECONOMIC INFLUENCES ON USAID STRATEGY

- A. THE BALANCE OF PAYMENTS
- B. PUBLIC FINANCES

I. INTRODUCTION AND SUMMARY

3. THIS PAAD PROPOSES AND JUSTIFIES U.S. DOLS 70 MILLION IN FY 1986 ESF ASSISTANCE FOR JAMAICA IN SUPPORT OF ITS EFFORTS TO RECOVER FROM OVER A DECADE OF DOWNWARD DRIFT IN REAL INCOME INITIATED IN THE NINETEEN SEVENTIES BY THE SHOCK OF PETROLEUM PRICE INCREASES AND PRODUCT ON INHIBITING POLICY RESPONSES, AND REINFORCED IN THE NINETEEN EIGHTIES BY THE NEAR COLLAPSE OF ITS MAJOR EXPORT INDUSTRY (BAUXITE/ALUMINA). THE DOLS 70 MILLION FOR FY 1986 IS OVER AND ABOVE THE DOLS 19 MILLION OF ESF ASSISTANCE PROMISED FOR FY 1985 BUT NOT DELIVERED UNTIL OCTOBER, 1986, AND CHARGED TO THE CURRENT YEAR'S APPROPRIATION. ADDITIONAL RESOURCES WILL MOST PROBABLY BE REQUIRED LATER IN THIS FISCAL YEAR.

4. IN THE MISSION'S FY 1985/86 ACTION PLAN, APPROVED IN MAY, 1985, AN ECONOMIC ANALYSIS WAS PRESENTED WHICH SHOWED THE STRONG ADVERSE EFFECT ON THE JAMAICAN ECONOMY OF THE SEVERE CONTRACTION OF THE BAUXITE/ALUMINA SECTOR. THE NET CONTRIBUTION OF THE BAUXITE/ALUMINA SECTOR TO THE BALANCE OF PAYMENTS IN 1984 WAS ABOUT U.S. DOLS 220 MILLION AND IS EXPECTED TO FALL TO HALF THIS SUM IN 1985 AND EVEN LESS IN 1986.

5. FOR JFY 1985/86, GDP IS EXPECTED TO FALL BY 3 TO 5 PERCENT. TO RESTRAIN THE CONTRACTION EVEN TO THIS RATE HOWEVER, ADDITIONAL RESOURCES IN THE RANGE OF DOLS 80 TO DOLS 100 MILLION WILL HAVE TO BE IDENTIFIED.

6. USAID PROPOSES TO USE ITS ESF RESOURCES TO HELP JAMAICA:

- -- STAY IN ACCORD WITH THE IMF PROGRAM AND

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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC IMMEDIATE 3474

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AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E.O. 12356: N/A

TAGS: EFIN, EAID, ECON, JM

SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

- MEET ITS OBLIGATION TO CREDITORS ;

- -- MINIMIZE POLITICAL AND SOCIAL TENSIONS WHICH  
- WOULD RESULT FROM MORE SEVERE ADJUSTMENT  
- MEASURES;

- -- CONSOLIDATE, DEFEND, AND CONTINUE THE  
- SIGNIFICANT PROGRESS MADE IN POLICY REFORMS  
- AS A PART OF THE STRUCTURAL ADJUSTMENT AND  
- STABILIZATION PROGRAM;

- -- SHOW U.S. SUPPORT FOR DIFFICULT BUT IMPORTANT  
- STRUCTURAL ADJUSTMENTS IN GENERAL AND, IN THE  
- PRESENT JAMAICAN FISCAL YEAR, THE  
- IMPLEMENTATION OF THE GOJ'S INCOME TAX  
- REFORM PROPOSAL IN PARTICULAR.

7. SO IMPORTANT IS THE LATTER ELEMENT TO THE  
STRUCTURAL ADJUSTMENT OF THE JAMAICAN ECONOMY THAT IT  
ALONE IS SUFFICIENT TO JUSTIFY THE SUPPORT OFFERED  
THROUGH THE FY 1966 ESF GRANT.

8. JAMAICA FAILED, IN SEPTEMBER, TO MEET THREE  
CLOSELY INTERRELATED TESTS OF THE NINE QUANTITATIVE  
PERFORMANCE TARGETS OF ITS STAND-BY AGREEMENT WITH  
THE IMF. ACCORDING TO GOJ CALCULATIONS, NET  
INTERNATIONAL RESERVES (NIR) WERE SHORT AND NET  
DOMESTIC ASSETS (NOA) WERE IN EXCESS OF THEIR  
RESPECTIVE TARGET LEVELS BY THE EQUIVALENT OF U.S.  
DOLS 23.6 MILLION. FOREIGN DEBT PAYMENT ARREARS WERE  
U.S. DOLS 1.7 MILLION ABOVE THE TARGET LEVEL OF ZERO.  
MOST OF THE MODEST MARGINS BY WHICH NET NIR AND NOA  
MISSED THEIR TARGETS IS ACCOUNTED FOR BY THE INABILITY  
OF A.I.D. TO FIND THE FINAL DOLS 19 MILLION OF THE  
DOLS 30 MILLION SUPPLEMENTAL FY 65 ESF GRANT THAT THE  
UNITED STATES PLEDGED AT THE CARIBBEAN GROUP MEETING  
LAST SUMMER. AFTER ADJUSTMENT FOR THAT SHORTFALL OF  
RESOURCE INFLOWS, THE ACTUAL NOA LEVEL WAS 0.7 PERCENT  
ABOVE THE TARGET CEILING AND THE ACTUAL NIR MEASURE  
WAS 0.3 PERCENT BELOW THE TARGET FLOOR. AS A RESULT,  
THE GOJ WAS UNABLE TO MAKE A DOLS 13 MILLION DRAWING  
IN OCTOBER.

9. IN ORDER TO KEEP THE STAND-BY ALIVE, AND HOPEFULLY  
BE ABLE TO MAKE THE OCTOBER DRAWING, THE GOJ IS  
SEEKING A TECHNICAL WAIVER. DISCUSSIONS ARE BEING  
HELD WITH THE IMF ON THE LATTER RANGE OF QUALITATIVE  
AS WELL AS QUANTITATIVE ELEMENTS OF THE PROGRAM AS SET  
FORTH IN THE LETTER OF INTENT SUBMITTED BY THE GOJ AS

PART OF ITS REQUEST FOR THE STAND-BY PROGRAM. SUCH  
DISCUSSIONS HAVE BEEN TAKING PLACE IN WASHINGTON AND  
KINGSTON AND ARE EXPECTED TO CONTINUE THROUGH DECEMBER  
IN ANTICIPATION OF AN IMF BOARD MEETING ON THE WAIVER  
IN MID JANUARY, 1956. SECURING THE WAIVER IS CRUCIAL  
BECAUSE THE GOJ MUST BE IN COMPLIANCE WITH THE IMF  
PROGRAM WHEN THE SEMI-ANNUAL COMMERCIAL BANKER'S GROUP  
MEETS ON JANUARY 15, 1956, OR IT FACES SUBSTANTIAL  
PENALTY INTEREST SURCHARGES.

10. WHEN NEWS OF THE IMF TEST PROBLEM CIRCULATED, AND  
ALSO BECAUSE OF THE TYPICAL WIDER SEASONAL DIVERGENCE  
BETWEEN NORMAL FOREIGN EXCHANGE SUPPLY AND DEMAND, THE  
JAMAICAN DOLLAR FELL PRECIPITOUSLY AGAINST THE U.S.  
DOLLAR. THE PRICE OF THE U.S. DOLLAR ROSE FROM DOLS  
5.95 IN THE LAST AUCTION IN SEPTEMBER TO DOLS 6.40 ON  
OCTOBER 24. IN JUST LESS THAN ONE MONTH THE PRICE OF  
U.S. DOLLARS HAD INCREASED IN ALMOST THE SAME  
PROPORTION AS IN THE PREVIOUS SIX MONTHS. AT PRICES  
ABOVE J DOLS 6.00 EQUAL US DOLS 1.00, SIZEABLE  
INCREASES IN THE LOCAL PRICES OF PETROLEUM PRODUCTS  
AND IMPORTED BASIC FOODS WOULD BE TRIGGERED ACCORDING  
TO AGREEMENTS WITH THE IMF AND IBRD.

11. WITH THE 1965/66 TOURIST SEASON CLOSE AT HAND, AND  
WITH BITTER MEMORIES OF THE WIDELY PUBLICIZED STREET  
DEMONSTRATIONS THAT HAD ERUPTED FOLLOWING THE JANUARY,  
1965 GASOLINE PRICE INCREASE, PRIME MINISTER SEAGA'S  
GOVERNMENT MADE THE POLITICAL JUDGEMENT THAT INCREASES  
IN THESE SENSITIVE PRICES WERE CATEGORICALLY  
UNACCEPTABLE. (SERIOUS DAMAGE TO THE TOURIST  
INDUSTRY, WHICH EARNED U.S. DOLS 363.0 MILLION IN NET  
FOREIGN EXCHANGE IN 1964/65, WOULD INFLICT YET FURTHER  
DAMAGE ON THE ECONOMY.) ACTING ON THIS JUDGEMENT,

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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC IMMEDIATE 3475

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AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

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SEAGA ORDERED THE BANK OF JAMAICA TO PUT EXTRA FUNDS INTO THE AUCTION (PART OF THE FUNDS USED FOR THIS PURPOSE WERE DIVERTED FROM SCHEDULED DEBT PAYMENTS, INCLUDING AMOUNTS OWED TO THE IMF. PROCEEDS FROM THE SALE OF FOREIGN REAL ESTATE OWNED BY THE GOJ WERE ALSO PARTIALLY ALLOCATED TO THE FOREIGN EXCHANGE AUCTION). FUNDS AVAILABLE TO THE AUCTION HAD BEEN AVERAGING U.S. DOLS 2.5 TO DOLS 3.0 MILLION. ON OCTOBER 29 THE AUCTION FUND WAS U.S. DOLS 3.0 MILLION AND ON OCTOBER 31, U.S. DOLS 6 MILLION WERE SUPPLIED. THESE WERE FOLLOWED IN SUCCESSION BY SUPPLY LEVELS OF DOLS 5 MILLION, DOLS 3.5 MILLION, DOLS 6.0 MILLION AND DOLS 4.0 MILLION. THE BACKLOG OF DEMAND WAS CLEARED OUT AND THE RATE FELL QUICKLY TO J DOLS 5.50 EQUALS U.S. DOLS 1.00 AND HAS REMAINED THERE FOR THE PAST FIVE AUCTIONS. SEAGA HAS DECLARED PUBLICLY THAT J DOLS 5.50 IS A PRICE THAT MAKES JAMAICAN EXPORTS COMPETITIVE AND JAMAICAN LABOR COSTS ATTRACTIVE TO INVESTORS, AND THAT HE INTENDS TO HOLD THE PRICE AT THAT LEVEL. MOST OBSERVERS AGREE THAT COMPETITIVENESS IS ACHIEVED AT J DOLS 5.50, ALTHOUGH THE DEMAND IS STILL HIGH FOR U.S. DOLLARS.

12. SIMULTANEOUSLY WITH HIS INTERVENTIONS IN THE AUCTION, SEAGA ACKNOWLEDGED THAT THIS COURSE IS NOT IN KEEPING WITH THE TERMS OF THE IMF STAND-BY AGREEMENT. TO DEAL WITH THIS HE WROTE TO THE MANAGING DIRECTOR OF THE IMF PROPOSING THAT THE THREE PRINCIPAL DONORS, IMF, IBRD, AND A.I.D., SEND A JOINT, HIGH LEVEL TEAM TO JAMAICA TO REVIEW THE ECONOMIC SITUATION AND TAKE A "FRESH LOOK" AT THE KIND OF POLICY PROGRAM THAT WOULD BE APPROPRIATE FOR A COUNTRY IN JAMAICA'S CIRCUMSTANCES. HIS POSTURE HAS BEEN BOLD AND AGGRESSIVE, AND HE HAS STATED PUBLICLY THAT IMF-TYPE PROGRAMS HAVE NO SUCCESSFUL TRACK RECORD AND ARE LONG OVERDUE FOR SOME RE-THINKING. SEAGA'S MOVE CAN ESSENTIALLY BE INTERPRETED AS FORCING THE IMF TO REVIEW ITS PRESENT NEGATIVE EFFECT ON THE BALANCE OF PAYMENTS: SCHEDULED REPAYMENTS TO THE FUND TOTAL U.S. DOLS 97.0 MILLION IN JFY 85/86 AND U.S. DOLS 123.7 MILLION IN 1986/87, WHILE POTENTIAL STAND-BY DRAWINGS ARE ONLY U.S. DOLS 77.5 MILLION AND U.S. DOLS 53.3 MILLION RESPECTIVELY. WHAT SEAGA WANTS IS A LESS UNFAVORABLE REPAYMENT SCHEDULE AND EASIER TERMS (CONDITIONALITY) FOR MAKING THE DRAWINGS.

13. SEAGA'S PUBLIC POSITION SHOULD NOT BE TAKEN AS A STATEMENT THAT HE HAS ABANDONED THE PRINCIPLES OF

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DISCIPLINED MONETARY AND FISCAL MANAGEMENT AND SERIOUS STRUCTURAL REFORM. RATHER, HE HAS EMPHASIZED THE IMPORTANCE OF FLEXIBILITY TO ADJUST THE PACE OF POLICY AND STRUCTURAL REFORM TO EXTERNAL ECONOMIC CONDITIONS THAT PLAY A DOMINANT ROLE IN THE LOCAL ECONOMY BUT ARE BEYOND THE COUNTRY'S CONTROL.

14. EVIDENCE OF HIS COMMITMENT TO THE ORIGINAL OBJECTIVES OF HIS ECONOMIC RECOVERY PROGRAM IS ABUNDANT. TWO CURRENT ACTIVITIES ARE PARTICULARLY STRIKING. FIRST, HIS COMPREHENSIVE TAX REFORM PROGRAM IS NOW EXPECTED TO BECOME LAW BY THE END OF JANUARY, 1986. SECOND, HIS TECHNICIANS ARE WORKING OUT WITH THE IMF A PROGRAM TO ASSURE THAT IMPORT DEMAND IS SUFFICIENTLY COMPRESSED THROUGH MONETARY POLICY IF ADDITIONAL RESOURCES ARE NOT FORTHCOMING. THIS WILL COMPENSATE FOR THE POTENTIAL EXCESS DEMAND ASSOCIATED WITH HIS NEW POLICY STANCE WITH RESPECT TO THE EXCHANGE RATE AND BASIC COMMODITY PRICES. HE IS ALSO MOVING STEADILY FORWARD IN THE AREAS OF INVESTMENT PROMOTION, DEREGULATION, AND RESPONSIBLE FISCAL MANAGEMENT. THE "FRESH LOOK", THEREFORE, IS NOT PERCEIVED BY SEAGA AS A SEARCH FOR A LESS OPEN OR LESS DISCIPLINED ECONOMIC SYSTEM, BUT FOR A POLICY SET THAT CAN PURSUE THOSE GOALS WITHOUT IN THE PROCESS INCITING SOCIO-POLITICAL RESPONSES THAT RENDER THE WHOLE PROCESS COUNTERPRODUCTIVE.

15. SEAGA'S "FRESH LOOK", HOWEVER IT IS FLESHED OUT BY THE IMF/IBRD/AID TEAM, WILL HAVE TO BE A CAREFUL BALANCING ACT. ON ONE SIDE IS THE PRECIPICE OF POLITICAL DISCONTENT THAT COULD DISRUPT THE TOURIST INDUSTRY AS WELL AS FOREIGN INVESTMENT. ON THE OTHER SIDE IS THE EQUALLY DANGEROUS PRECIPICE OF RUPTURE WITH THE FUND AND A CASCADE OF DEBT DEFAULT.

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UNEMPLOYED WORKERS AND WORKERS RELEASED FROM THE GOVERNMENT PAYROLL.

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TO SECSTATE WASHDC IMMEDIATE 3475

UNCLAS SECTION 04 OF 15 KINGSTON 11859

AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E.O. 12356: N/A  
TAGS: EFIN, EAID, ECON, JM  
SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
FOR FY 86 ESF GRANT TO JAMAICA

11. ANALYSIS OF CURRENT JAMAICAN ECONOMIC CONDITIONS

A. THE ECONOMIC BACKGROUND

16. OVER THE PAST FIVE YEARS, THE JAMAICAN ECONOMY HAS UNDERGONE SOME OF THE MOST WRENCHING STRUCTURAL AND POLICY CHANGES EVER UNDERTAKEN BY A DEMOCRATICALLY ELECTED GOVERNMENT IN SO LITTLE TIME. UPON ASSUMING OFFICE, PRIME MINISTER SEAGA TOOK THE HELM OF AN ECONOMIC SYSTEM THAT, HAD BEEN TURNED IN THE DIRECTION OF A CENTRALLY PLANNED, SOCIALIST MODEL. IN THE PROCESS OF TAKING THAT DIRECTION, PARTICULARLY AT A TIME WHEN THE OIL PRICE INCREASES WERE ADMINISTERING A SEVERE SHOCK TO THE ECONOMIC SYSTEM, THE JAMAICAN ECONOMY HAD SUFFERED A 25 PERCENT REDUCTION IN PER CAPITA INCOME IN A LITTLE LESS THAN A DECADE, HAD SEEN UNEMPLOYMENT JUMP TO 28 PERCENT, HAD EXPERIENCED A HEMORRHAGE OF HUMAN AND FINANCIAL CAPITAL, AND WAS PLAGUED WITH SHORTAGES OF GOODS AND SERVICES AND RAMPANT INFLATION. THE JAMAICAN CURRENCY HAD BECOME SERIOUSLY OVER-VALUED WHILE PEGGED AT J DOLS 1.78 TO THE U.S. DOLLAR, WHILE ITS VALUE IN JAMAICAN GOODS AND SERVICES WAS RAPIDLY ERODED BY PRICE INFLATION AND "PRINTING PRESS" FINANCING OF A BLOATED PUBLIC SECTOR PAYROLL. THE MACROECONOMIC CONSEQUENCE OF THE POLICY SET THAT WAS IN PLACE WHEN SEAGA TOOK OFFICE WAS THAT PRODUCTIVE INVESTMENT AND EMPLOYMENT, SAVING, AND EXPORTS WERE SUBJECT TO SEVERE DISINCENTIVES, WHILE EXCESSIVE CONSUMPTION AND IMPORTS WERE REINFORCED BY PROFLIGATE MONETARY AND FISCAL MANAGEMENT.

17. AGAINST THIS BACKGROUND THE SEAGA GOVERNMENT EMBARKED UPON AN ECONOMIC RECOVERY PROGRAM, THE FIRST TASK OF WHICH WAS TO ARREST THE RAPID CONTRACTION OF REAL PRODUCTION AND LIKEWISE THE EQUALLY RAPID EXPANSION OF AGGREGATE DEMAND. FOLLOWING THE EXPECTED STABILIZATION OF THE ECONOMY WOULD COME THE LONGER TERM AND MORE DIFFICULT CHANGES REQUIRED TO INDUCE NOT ONLY INCREASES IN REAL PRODUCTION, BUT SIGNIFICANT CHANGES IN ITS COMPOSITION. PRODUCTION FOR EXPORT WAS EXPECTED TO RESPOND TO THE CORRECTION OF POLICIES THAT PENALIZED EXPORTS AND SUBSIDIZED BOTH IMPORTS AND PRODUCTION FOR LOCAL MARKETS. PRIVATE INVESTORS WERE EXPECTED TO RESPOND POSITIVELY TO THE SHIFT TO A POLICY ENVIRONMENT MORE HOSPITABLE TO THE PRIVATE SECTOR. INCREASED PRODUCTIVE ACTIVITY IN THE PRIVATE SECTOR WAS EXPECTED TO CREATE JOBS THAT COULD ABSORB

18. MULTILATERAL AND BILATERAL DONORS--MOST IMPORTANTLY THE IMF, IBRD, AND A.I.D.--PROVIDED FINANCIAL AND TECHNICAL SUPPORT FOR THE PROGRAM, SO THAT THE ADJUSTMENTS COULD BE PHASED IN SMOOTHLY. THROUGH THIS SUPPORT, FOREIGN EXCHANGE WOULD BE AVAILABLE TO ACQUIRE THE RAW MATERIALS AND CAPITAL GOODS NEEDED TO EXPAND PRODUCTION, AS WELL AS CONSUMER GOODS TO RE-STOCK EMPTY SHELVES. THE DONORS, IN EFFECT, AGREED TO LEND AGAINST THE INCOME EXPECTED TO BE GENERATED FROM A SUCCESSFUL ECONOMIC RECOVERY PROGRAM.

19. IN SPITE OF THE APPEAL OF THE MEDIUM AND LONG TERM OUTCOME AS DESCRIBED ABOVE, IT WAS RECOGNIZED BY THE GOVERNMENT OF JAMAICA (GOJ) AND THE DONORS ALIKE THAT THE SUCCESS OF THE PROGRAM WOULD DEPEND ON THE ABILITY AND WILLINGNESS OF THE JAMAICAN PEOPLE TO ACCEPT SOME PAINFUL CHANGES. PRICES OF IMPORTED GOODS HAD BEEN HELD ARTIFICIALLY LOW BY A COMBINATION OF AN OVER-VALUED EXCHANGE RATE AND GOVERNMENT IMPOSED DOMESTIC PRICE CONTROLS. THIS ENCOURAGED OVER-CONSUMPTION AND EXCESSIVE USE OF SCARCE FOREIGN EXCHANGE, AND CLEARLY COULD NOT BE SUSTAINED INDEFINITELY. MANY INEFFICIENT LOCAL INDUSTRIES HAD BEEN PROTECTED AGAINST EXTERNAL AND DOMESTIC COMPETITION, AND WERE BENEFICIARIES OF COST SUBSIDIES VIA THE OVER-VALUED JAMAICAN CURRENCY. THESE WOULD HAVE TO ADJUST AND MAKE THEMSELVES MORE EFFICIENT, OR FAIL. THE DESIRED EXPANSION OF THE RELATIVE ROLE OF THE PRIVATE SECTOR IN THE ECONOMY WOULD REQUIRE THAT A LARGER SHARE OF TOTAL RESOURCES BE CHANNELLED TO THAT SECTOR. THIS WOULD REQUIRE TRIMMING THE PUBLIC SECTOR'S SHARE THROUGH REDUCTIONS IN GOVERNMENT

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AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

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EXPENDITURES, PROJECTS, AND EMPLOYMENT.

20. IN THE SCENARIO AGREED TO BY THE GOJ AND THE DONORS, THESE CHANGES WOULD BE ENACTED IN AN ENVIRONMENT OF EXPANDING REAL OUTPUT AND RESOURCE AVAILABILITY. CONSEQUENTLY, WHILE THEY WOULD NECESSARILY INVOLVE POCKETS OF HARDSHIP, THESE WOULD BE EASED BY THE GROWTH IN THE ABSOLUTE SIZE OF THE ECONOMIC PIE.

21. AS IS NOW WELL UNDERSTOOD, THE ORIGINAL SCENARIO TURNED OUT TO BE UNDULY OPTIMISTIC. FIRST, A ROBUST RECOVERY OF THE WORLD MARKET FOR BauxITE AND ALUMINA WAS ANTICIPATED IN THE ORIGINAL PROGRAM--INDEED IT WAS THE KEYSTONE OF THE PLAN. THIS DID NOT OCCUR. ON THE CONTRARY, BauxITE AND ALUMINA HAS VIRTUALLY COLLAPSED AS JAMAICA'S KEY FOREIGN EXCHANGE EARNER. THIS SHORTFALL OF FOREIGN EXCHANGE INFLOWS HAS HAD AN IMPACT ACROSS ALL SECTORS OF THE ECONOMY DUE TO THE RELIANCE OF VIRTUALLY EVERY SECTOR ON IMPORTED INPUTS. THE SCENARIO HAS CHANGED FROM ONE IN WHICH THE VARIOUS SECTORS WERE VYING IN HEALTHY COMPETITION FOR BIGGER SLICES OF A GROWING PIE, TO ONE IN WHICH EACH SECTOR IS DESPERATELY SCRAMBLING TO SURVIVE IN THE FACE OF INCREASING RESOURCE REQUIREMENTS AND DECLINING RESOURCE AVAILABILITY. THUS THE PAIN ASSOCIATED WITH CHANGES IN THE STRUCTURE OF ECONOMIC ACTIVITY IS MADE MORE SEVERE BY A REDUCTION IN THE ABSOLUTE LEVEL OF ACTIVITY. EACH SECTOR, INCLUDING THE PUBLIC SECTOR, HAS RESISTED VIGOROUSLY THE ENSUING PRESSURE TO REDUCE ITS CLAIMS AGAINST INCREASINGLY SCARCE RESOURCES. PROJECTS AND PROGRAMS THE VIABILITY OF WHICH DEPENDED ON THE EXPANDING ECONOMY SCENARIO, WERE NOT TRIMMED AS RAPIDLY AS RESOURCE AVAILABILITY CONTRACTED.

22. IN SPITE OF THE DRASTIC DIFFERENCE BETWEEN THE ACTUAL ECONOMIC ENVIRONMENT DURING THE SEAGA GOVERNMENT'S TENURE AND THE ENVIRONMENT ORIGINALLY ANTICIPATED, THE REQUIRED STRUCTURAL ADJUSTMENTS ARE THE SAME. IN CERTAIN AREAS, THE SEAGA GOVERNMENT DRAGGED ITS FEET AND, UNDOUBTEDLY, SHIFTED AN INORDINATE SHARE OF THE BURDEN ONTO THE PRIVATE PRODUCTIVE SECTOR. DIVULSTMENT WAS NOT AGGRESSIVELY PURSUED AS A SOURCE OF FUNDING FOR NEEDED INFRASTRUCTURE IMPROVEMENTS. THE OVER-VALUATION OF THE JAMAICAN DOLLAR CONTINUED TOO LONG AS THE GOJ

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RESISTED THE INEVITABLE DEVALUATIONS DICTATED BY MARKET FORCES. PUBLIC EXPENDITURES WERE TOO SLOW TO BE REDUCED. NEVERTHELESS, WHILE THE OPTIMUM PACE AND PATTERN OF ADJUSTMENTS IS ALWAYS OPEN TO DEBATE, THERE CAN BE NO DOUBT THAT THE PROFILE OF ECONOMIC POLICY HAS CHANGED RADICALLY AND IN THE DIRECTIONS ESTABLISHED AS APPROPRIATE BY THE GOJ AND THE DONORS AT THE OUTSET OF THE ECONOMIC RECOVERY PROGRAM. CRITICAL ELEMENTS OF THE ADJUSTMENTS ARE AS FOLLOWS:

- (1) EXCHANGE RATE. THE FIXED EXCHANGE RATE REGIME HAS BEEN ABOLISHED AND THE RATE IS NOW ESTABLISHED AT TWICE-WEEKLY AUCTIONS CONDUCTED BY THE BANK OF JAMAICA. THE LOCAL CURRENCY PRICE OF ONE US DOLLAR HAS INCREASED 209 PERCENT, FROM J DOLS 1.78 IN NOVEMBER 1980 TO J DOLS 5.50 IN NOVEMBER 1985. WHILE THE GOJ IS TRYING TO STABILIZE THE RATE AT THE VERY COMPETITIVE RATE OF J DOLS 5.50, THE CONTINUING EXISTENCE OF THE AUCTION SYSTEM MEANS THAT TO DO SO IT MUST PUT IN ENOUGH DOLLARS TO EFFECTIVELY SATISFY DEMAND. THUS IT STILL RETAINS AN IMPORTANT ROLE.
- (2) GOVERNMENT FINANCE. THE OVERALL GOVERNMENT BUDGET DEFICIT HAS DECLINED FROM 17 PERCENT OF GDP IN JAMAICAN FISCAL YEAR 1980/81 TO 7 PERCENT IN 1984/85. A FURTHER REDUCTION IS ON TRACK FOR 1985/86. BANK FINANCING OF THE DEFICIT IN 1984/85 WAS NIL COMPARED TO 59 PERCENT IN 1980/81.
- (3) PUBLIC SECTOR PAYROLL. THE PUBLIC SECTOR PAYROLL REACHED A PEAK THAT HAS BEEN ESTIMATED AS HIGH AS 133,800 WORKERS IN 1980. THIS HAS BEEN REDUCED SIGNIFICANTLY

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AIDAC, JOINT STATE/AID MESSAGE

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AND, IN THE PRESENT FISCAL YEAR ALONE, THE  
GOVERNMENT ESTIMATES THAT 7,000 ADDITIONAL  
PUBLIC SECTOR JOBS WILL BE ELIMINATED.

(4) PRICE CONTROLS. IN 1980, 60 ITEMS WERE  
SUBJECT TO GOVERNMENT PRICE CONTROLS. BY  
NOVEMBER 1985 THE NUMBER OF ITEMS SUBJECT TO  
PRICE CONTROLS HAD BEEN REDUCED TO 3,  
ALTHOUGH PERCENTAGE MARK-UPS ON KEY  
COMMODITIES ARE STILL REGULATED. THE  
PRICE OF GASOLINE HAS RISEN 263 PERCENT FROM  
J DOLS 3 PER GALLON IN 1982 TO J DOLS 10.90  
AT PRESENT. THE COST OF A MARKET BASKET OF  
BASIC FOODS CONSUMED BY LOW INCOME FAMILIES  
(J DOLS 50 PER WEEK OR LESS) IN DECEMBER  
1980, INCREASED FROM J DOLS 20 TO J DOLS 47  
FROM DECEMBER, 1960, TO AUGUST, 1985.

(5) QUANTITATIVE IMPORT RESTRICTIONS. IN  
1980 ALL IMPORTS REQUIRED LICENSES, AND 364  
TARIFF ITEMS WERE SUBJECT TO QUANTITATIVE  
LIMITS. IN NOVEMBER, 1985, ALL BUT 76 ITEMS  
STILL SUBJECT TO EXPLICIT QUANTITATIVE  
RESTRICTIONS WERE REMOVED AND ONLY 160 ITEMS  
REMAINED SUBJECT TO LICENSING. MANY OF THESE  
WERE ITEMS SUCH AS FERTILIZERS, EXPLOSIVES,  
AND PHARMACEUTICAL PRODUCTS.

(6) AGRICULTURAL COMMODITY BOARDS. BANANAS,  
SUGAR, COFFEE, CITRUS, PIMENTO, CACAO, AND  
COCONUTS HAVE TRADITIONALLY BEEN GROWN AND  
MARKETED UNDER RIGID REGULATION BY GOVERNMENT  
CONTROLLED COMMODITY BOARDS. THE FIRST FOUR  
HAVE BEEN SUBSTANTIALLY DECONTROLLED COMPARED  
TO THEIR SITUATION FOUR YEARS AGO. FURTHER  
REGULATORY REFORMS ARE NEEDED AND ARE UNDER  
REVIEW. NEVERTHELESS, THE STEPS THAT HAVE  
BEEN TAKEN ARE SIGNIFICANT AND ARE REFLECTED  
IN POSITIVE IMPROVEMENTS IN COST AND EARNINGS  
PERFORMANCE. FOR EXAMPLE, BANANA PRODUCTION  
FOR EXPORT IS RECOVERING RAPIDLY. SUGAR  
ACREAGE IS BEING REDUCED IN FAVOR OF WINTER  
VEGETABLES AND OTHER EXPORTS UNDER THE AEGIS  
OF AGRO 21 PLANNING. COFFEE HAVE  
INCREASED SUBSTANTIALLY. NEW EXPORT MARKETS  
HAVE BEEN FOUND FOR JAMAICAN CITRUS.

(7) DIVESTMENT OF STATE ENTERPRISES. EARLY  
IN THE SEAGA GOVERNMENT'S ECONOMIC RECOVERY  
PROGRAM, THE GOVERNMENT BEGAN TO SHED THE  
OPERATION OF ESSENTIALLY COMMERCIAL  
ENTERPRISES, PARTICULARLY TOURIST  
FACILITIES. WHILE LEASES AND MANAGEMENT  
CONTRACTS WERE MORE OFTEN EMPLOYED THAN  
OUTRIGHT SALE, THESE ENTITIES WERE BROUGHT  
UNDER THE DISCIPLINE OF MARKET FORCES  
AND THE NECESSITY TO FUNCTION AS PROFIT  
SEEKING BUSINESSES. AFTER A SUBSEQUENT  
PERIOD OF RELATIVE INACTIVITY, THE DIVESTMENT  
(OR AS THE GOJ PREFERS, THE "PRIVATIZATION")  
ACTIVITY HAS BEEN REVITALIZED. TEN  
ENTERPRISES HAVE BEEN DIVESTED SINCE 1984,  
ELEVEN MORE ARE IN THE NEGOTIATION STAGE FOR  
DIVESTMENT, AND TWENTY-ONE MORE ARE HAVING  
THEIR FINANCIAL STATUS REVIEWED AND BROUGHT  
UP TO DATE FOR EARLY DIVESTMENT. A RECENT  
PROPOSAL BY PRIME MINISTER SEAGA TO PLACE  
ALL OTHER STATE OWNED ENTERPRISES INTO A  
HOLDING COMPANY WHOSE EQUITY SHARES WOULD IN  
TURN BE OFFERED TO THE PUBLIC, IS NOW BEING  
FORMALLY EVALUATED. IT IS NOT, IN OUR VIEW,  
PROMISING, AND WE DOUBT THAT THE FEASIBILITY  
STUDY WILL SUPPORT THE CONCEPT. THIS  
ACTIVITY IS HIGH ON THE AGENDA OF DISCUSSION  
TOPICS BETWEEN USAID AND THE GOJ FOR FURTHER  
ACCELERATION OF THE PROCESS.

(8) INVESTMENT PROMOTION. MEASURES HAVE  
BEEN ADOPTED TO FACILITATE THE PROCESS OF  
ELICITING AND APPROVING PRIVATE INVESTMENT  
PROPOSALS FROM BOTH DOMESTIC AND FOREIGN  
INVESTORS. YET CONTINUED GROUSING BY ACTUAL  
AND POTENTIAL INVESTORS SUGGESTED THE NEED

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AIDAG, JOINT STATE/AID MESSAGE

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- FOR A REVIEW OF THE PROCEDURES. ACCORDINGLY  
- THE GOVERNMENT'S JAMAICA NATIONAL INVESTMENT  
- PROMOTION (JNIP) AND THE U.S.G. TEAM IN  
- JAMAICA COLLABORATED IN A SURVEY RESEARCH  
- PROJECT TO LEARN OF THE ACTUAL EXPERIENCES OF  
- FIRMS IN THE PROCESS. THE RESULTS OF THE  
- SURVEY WERE PRESENTED TO PRIME MINISTER SEAGA  
- WITH RECOMMENDATIONS FOR STREAMLINING THE  
- PROCESS. AS A RESULT, AN INTER-AGENCY  
- COMMITTEE HAS BEEN FORMED AND IS CHAIRED BY  
- THE PRIME MINISTER. THE COMMITTEE MEETS  
- WEEKLY AND DEALS PROMPTLY AND EFFECTIVELY IN  
- INSTANCES IN WHICH THE GOVERNMENT'S STRONG  
- PRO-INVESTMENT POLICY IS BEING BLOCKED BY  
- BUREAUCRATIC OBSTACLES. JNIP HAS ALSO BEEN  
- EMPOWERED TO PLAY A STRONGER FACILITATIVE  
- ROLE. MORE DIFFICULT STUMBLING BLOCKS, MOST  
- NOTABLY CUSTOMS ADMINISTRATION, ARE UNDER  
- REVIEW AT PRESENT, AND MANY WILL BE ADDRESSED  
- IN RADICAL ADMINISTRATIVE AND INSTITUTIONAL  
- REFORMS THAT ARE EXPECTED TO BE ADOPTED BY  
- THE END OF CALENDAR YEAR 1986. SIGNIFICANT  
- RESOURCES AND CLOSE ATTENTION FROM THE  
- HIGHEST LEVELS OF GOVERNMENT ARE BEING  
- FOCUSED ON THIS PRIORITY ACTIVITY. CORPORATE  
- TAX REFORM MEASURES, PROPOSED BY THE SYRACUSE  
- UNIVERSITY GROUP, WILL ALSO PROVIDE  
- SIGNIFICANT INCENTIVES TO INVESTMENT IN THE  
- FORM OF IMMEDIATE EXPENSING OF INVESTMENT AND  
- REMOVAL OF DISCRIMINATORY TREATMENT OF EQUITY  
- AS OPPOSED TO DEBT.

- (9) TAX REFORM. A TEAM OF TAX CONSULTANTS,  
- FUNDED BY USAID/J, HAS RECENTLY COMPLETED A  
- TWO AND ONE-HALF YEAR COMPREHENSIVE TAX  
- REFORM STUDY. THE RESULTS AND  
- RECOMMENDATIONS HAVE BEEN PRESENTED TO THE  
- GOVERNMENT. AS PART OF HIS STRATEGY TO SELL  
- THE TAX REFORM TO THE PUBLIC, PRIME MINISTER  
- SEAGA THEN APPOINTED A PRIVATE TAX STUDY  
- COMMITTEE COMPRISED OF RESPECTED LEADERS OF  
- TRADE UNIONS, THE PRIVATE SECTOR ORGANIZATION  
- OF JAMAICA (PSOJ), THE CHARTERED ACCOUNTANTS  
- ASSOCIATION, THE BAR ASSOCIATION AND PUBLIC  
- INTEREST ORGANIZATIONS. THIS COMMITTEE WAS  
- CHARGED WITH RESPONSIBILITY FOR STUDYING THE  
- REPORT AND RECOMMENDATIONS AND RETURNING WITH

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- ITS OWN RECOMMENDATIONS FOR ACTION. THE  
- COMMITTEE HAS COMPLETED ITS WORK ON THE  
- PERSONAL INCOME TAX, AND MADE ITS  
- RECOMMENDATIONS FOR SWEEPING CHANGES. THE  
- PRINCIPAL CHARACTERISTICS OF THE CHANGES THEY  
- HAVE RECOMMENDED ARE (A) A FLAT RATE OF 35  
- PERCENT ON INCOMES OVER DOLS 7,500 SO THAT  
- TAX ON INCOMES ABOVE THE EQUIVALENT OF U.S.  
- DOLS 2,545 IS REDUCED BY APPROXIMATELY 20  
- PERCENTAGE POINTS AND THE LOWEST INCOME  
- EARNERS ARE RELIEVED FROM INCOME TAXATION  
- ENTIRELY; (B) A SIMPLIFICATION OF THE SYSTEM  
- OF EXEMPTIONS AND CREDITS BY ALLOWING ALL  
- TAXPAYERS FIXED EXEMPTIONS; AND (C) FOCUSED  
- ADMINISTRATIVE RESOURCES ON BRINGING TAX  
- EVADERS ONTO THE TAX ROLLS. THE GOVERNMENT  
- INTENDS TO HAVE THE NEW SYSTEM APPROVED BY  
- PARLIAMENT BY THE END OF JANUARY, 1987, WITH  
- AN EFFECTIVE DATE OF JANUARY 1, 1986. THE  
- CHANGES THE GOVERNMENT PROPOSES COULD REDUCE  
- TAX COLLECTIONS BY AS MUCH AS J DOLS 200  
- MILLION IN THE FIRST YEAR. TAXES ON INTEREST  
- INCOME, AN UP-DATED PROPERTY TAX ROLL AND  
- IMPROVED ENFORCEMENT WILL PARTIALLY MAKE UP  
- FOR THE LOSS. GIVEN THE GOJ'S COMMITMENT TO  
- MEET THE TARGET REDUCTIONS IN THE FISCAL  
- DEFICIT AS AGREED WITH THE IMF, COMBINED WITH  
- THE DRASTIC REDUCTION IN REVENUE FROM THE  
- BAUXITE LEVY, THE TAX REFORM WE EXPECT TO BE  
- IMPLEMENTED WILL BE ONE OF THE MOST  
- SIGNIFICANT STRUCTURAL REFORMS YET ADOPTED.  
- INDEED, WE CONSIDER IT TO BE OF THE SAME  
- LEVEL OF IMPORTANCE AS THE FINAL FREEING  
- OF THE PRICE OF FOREIGN EXCHANGE IN THE  
- AUCTION, WHICH OCCURRED A YEAR AGO.  
- ACCORDINGLY, JUST AS THAT CHANGE WAS

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- CONSIDERED SUFFICIENT BY ITSELF TO WARRANT FY 1986 ESF SUPPORT, WE BELIEVE THAT THE EXPECTED REFORM OF THE PERSONAL INCOME TAX IS SUFFICIENT JUSTIFICATION FOR THE DISBURSEMENT OF THE PROPOSED FY 1986 ESF GRANT.

23. IT IS NOT THE INTENTION HERE TO SUGGEST THAT THE PACE AND DEGREE OF POLICY AND STRUCTURAL REFORM IN JAMAICA HAVE BEEN ABOVE CRITICISM. STEPS TOWARD A MORE MARKET ORIENTED ECONOMY HAVE OFTEN BEEN FOLLOWED QUICKLY BY PARTIAL RETREATS. THE TEMPTATION TO INTERVENE IN THE MARKET SYSTEM HAS OFTEN PROVED IRRESISTIBLE TO A GOVERNMENT MANY OF WHOSE KEY PLAYERS ARE INEXPERIENCED IN THE MYSTERIES OF A PREDOMINANTLY PRIVATE, OUTWARD LOOKING, COMPETITIVE MARKET ENVIRONMENT. THE EMBASSY/USAID TEAM HAS REPORTED FREQUENTLY AND IN CONSIDERABLE DETAIL ON WHAT WE HAVE CONSIDERED TO BE IMPERFECTIONS IN BOTH THE DESIGN AND THE IMPLEMENTATION OF VARIOUS ELEMENTS OF PUBLIC ECONOMIC POLICY.

24. THE ISSUE THAT DEMANDS USG ATTENTION AT THE PRESENT JUNCTURE, HOWEVER, IS NOT WHETHER JAMAICA HAS ADHERED PRECISELY TO THE FORM AND PACE OF POLICY REFORM WE WOULD CONSIDER OPTIMAL. RATHER IT IS WHETHER JAMAICA'S PERFORMANCE MERITS IMMEDIATE AND CONTINUED SUBSTANTIVE SUPPORT, GIVEN U.S. FOREIGN POLICY OBJECTIVES. IN THE JUDGEMENT OF THE COUNTRY TEAM THE ANSWER IS UNEQUIVOCALLY AFFIRMATIVE. THE SECTIONS THAT FOLLOW SET FORTH ADDITIONAL FACTS AND ANALYSIS UPON WHICH THAT CONCLUSION IS BASED, OUR ESTIMATE OF THE MAGNITUDE OF ASSISTANCE REQUIRED, AND THE STRATEGY WE PROPOSE TO ENSURE THAT ESF ASSISTANCE IS UNDERSTOOD BY THE GOJ TO REPRESENT SUPPORT FOR CONTINUING THE DIFFICULT STRUCTURAL ADJUSTMENT PROCESS RATHER THAN AS A MEANS OF AVOIDING IT.

B. THE PRESENT SITUATION: HARD TIMES AND A "FRESH LOOK"

25. THE GOJ'S PRESENT DILEMMA PITS ECONOMIC REALITY AGAINST POLITICAL NECESSITY. THE ECONOMIC REALITY IS THAT JAMAICA'S COMMAND OVER REAL EXTERNAL RESOURCES HAS NOT ONLY FAILED TO EXPAND AS ANTICIPATED, BUT HAS DECLINED ABSOLUTELY. FOR EXAMPLE, APRIL, 1984, ESTIMATES PREPARED BY THE BANK OF JAMAICA ANTICIPATED THAT IN JFY 1983/84, U.S. DOLS 1,393 MILLION WOULD BE

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AVAILABLE TO FINANCE IMPORTS AND TO BUILD INTERNATIONAL RESERVES. IN JUNE, 1985, THE ESTIMATE WAS REVISED DOWNWARD TO U.S. DOLS 1,178 MILLION. SIMILARLY, JUNE, 1983, ESTIMATES BY THE BOJ AND THE IMF PROJECTED U.S. DOLS 1,345 MILLION IN IMPORTS AND RESERVE IMPROVEMENT FOR JFY 1983/84. THE ACTUAL OUTCOME SHOWED IMPORTS OF ONLY DOLS 1,265 MILLION AND A DOLS 312 MILLION DECLINE IN NET INTERNATIONAL RESERVES. THUS IT IS HARDLY SURPRISING THAT UPWARD MOVEMENTS OF THE PRICE OF FOREIGN EXCHANGE HAVE FAIRLY CONSISTENTLY EXCEEDED EXPECTATIONS. THE COUNTRY HAS LITERALLY EXPERIENCED SUCCESSIVE REDUCTIONS IN ITS REAL WEALTH. IN THE ABSENCE OF AN INFUSION OF ADDITIONAL RESOURCES THEREFORE, REAL IMPOVERISHMENT, IN THE AGGREGATE, IS INESCAPABLE. NO AMOUNT OF JAMAICAN ECONOMIC POLICY ADJUSTMENT CAN ALTER THAT HARSH FACT IN THE NEAR TERM.

26. THE POLITICAL NECESSITY, AS PERCEIVED BY PRIME MINISTER SEAGA AND BY EMBASSY/USAID, IS TO PREVENT THE BURDEN OF THE AGGREGATE CONTRACTION FROM FALLING INORDINATELY HEAVILY ON THE LOWER INCOME SEGMENTS OF THE COMMUNITY. THE DEMONSTRATIONS THAT FOLLOWED THE JANUARY, 1985, ROUND OF GASOLINE PRICE INCREASES HAD A LARGE SPONTANEOUS PARTICIPATION. THIS SENT A CLEAR SIGNAL THAT THE PATIENCE OF THE GENERAL PUBLIC WITH A SEEMINGLY ENDLESS SERIES OF ECONOMIC HARDSHIPS WAS NEAR ITS LIMIT. THE DAMAGE THAT APPEARS TO HAVE BEEN DONE TO THE VERY SENSITIVE TOURISM SECTOR BY THE JANUARY DEMONSTRATIONS COULD BE MORE SEVERE THIS YEAR SHOULD NEW DEMONSTRATIONS OCCUR. SINCE THE COLLAPSE OF THE BAUXITE/ALUMINA SECTOR, THE TOURISM SECTOR IS TOO IMPORTANT TO PUT IN JEOPARDY BY IGNORING SIGNS THAT POINT TO A FRAGILE SOCIO-POLITICAL STABILITY.

27. PRIME MINISTER SEAGA IS PAINFULLY AWARE THAT

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INFO LOG-00 COPY-01 CIAE-00 EB-06 DODE-00 ARA-00 /009 W  
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FM AMEMBASSY KINGSTON  
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UNCLAS SECTION 09 OF 15 KINGSTON 11859

AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E. O. 12356: N/A  
TAGS: EFIN, EAID, ECON, JM  
SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
FOR FY 86 ESF GRANT TO JAMAICA

ABANDONING THE DISCIPLINE OF HIS PROGRAM WITH THE IMF WILL NOT CHANGE THE ECONOMIC REALITY OF REDUCED REAL RESOURCE AVAILABILITY. HIS CALL FOR A "FRESH LOOK" AT THE JAMAICAN ECONOMIC SITUATION AND THE REQUIREMENTS OF THE IMF PROGRAM, IS NOT, WHEN CAREFULLY ANALYZED, A CALL FOR APPROVAL FOR RESORTING TO THE PRINTING PRESS TO FINANCE SUBSIDIES FOR PETROLEUM PRODUCTS AND BASIC FOODS. INSTEAD, HE SEEMS TO BE ASKING FOR A REVIEW OF POLICY ALTERNATIVES TO THE CONTINUED UNRESTRAINED DEPRECIATION OF THE JAMAICAN DOLLAR, WHICH IN TURN TRIGGERS INCREASED PRICES OF IMPORTED BASIC FOOD AND GASOLINE. AS AN ALTERNATIVE, HIS TECHNICIANS HAVE BEEN DEVELOPING QUANTITATIVE MODELS TO APPLY SUFFICIENTLY RESTRICTIVE MONETARY POLICY TO CHOKE OFF THE EXCESS FOREIGN EXCHANGE DEMAND THAT DRIVES THE DEPRECIATION. IT IS A RISKY STRATEGY. IT IS RISKY BECAUSE IT ASSUMES THAT THE EXCHANGE RATE CAN IN FACT BE STABILIZED AT THE TARGET RANGE. IN ADDITION TO THE SUCCESSFUL IMPLEMENTATION OF THE FISCAL AND MONETARY MEASURES DESCRIBED BELOW, PLUS OCCASIONAL DELIBERATE VARIATIONS OF THE SUPPLY OF FOREIGN EXCHANGE AT THE AUCTION, THE SCENARIO ASSUMES THAT THERE WILL BE NO ADDITIONAL EXOGENOUS SHOCK THAT COULD CAUSE BUYERS AT THE AUCTION TO LOSE CONFIDENCE OR OTHERWISE BID UP THE PRICE OF FOREIGN EXCHANGE.

28. AT THE SAME TIME, IT IS A DISCIPLINED STRATEGY, AND ONE THE IMF FEELS IS PLAUSIBLE IF NOT DESIRABLE. IN ORDER TO ACHIEVE THE TARGETED EXCHANGE RATE, THE GOJ AND IMF HAVE AGREED THAT THE MONETARY BASE WILL HAVE TO CONTRACT BY J DOLS 160 MILLION IN THE REMAINDER OF JFY 85/86 THROUGH A PACKAGE OF FISCAL AND MONETARY MEASURES. ON THE MONETARY SIDE, THE BANK OF JAMAICA HAS ALREADY BEGUN TO AUCTION OFF J DOLS 300 MILLION IN CERTIFICATES OF DEPOSIT (J DOLS 50.0 MILLION AT AN AVERAGE RATE OF 23 PERCENT). ON THE FISCAL SIDE, THE GOJ HOPES TO RAISE J DOLS 160 MILLION IN NEW TAXES ON IMPORTS. THESE FUNDS WILL THEN BE "STERILIZED" BY BEING LOUGED IN THE BANK OF JAMAICA.

29. THIS STRATEGY WILL ENABLE JAMAICA TO REALIZE THE CRUCIAL, IMMEDIATE OBJECTIVE OF SECURING ITS FINANCIAL POSITION NOT ONLY WITH THE IMF BUT ALSO THE WHOLE HOST OF DONORS AND CREDITORS SUCH AS THE IBRD, A.I.D, THE C.C.C., THE COMMERCIAL BANKS, ITS SUPPLIERS OF OIL, AND OTHERS.

30. NEVERTHELESS, MANY OBSERVERS FEEL THAT MONETARY

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POLICY IS ALREADY SO TIGHT THAT IT IS ADVERSELY AFFECTING REAL INVESTMENT AND PRODUCTION. IF THIS VIEW IS CORRECT, AND IT IS CERTAINLY PLAUSIBLE, THE EFFECT OF THE POLICY MAY BE TO SHIFT THE PAIN OF REDUCED REAL RESOURCE AVAILABILITY ONTO WORKERS BY WAY OF INCREASING UNEMPLOYMENT. THAT RESULT COULD PROVE TO BE AS DESTABILIZING AS PRICE INCREASES, THOUGH IT MIGHT NOT OCCUR AS QUICKLY.

31. THERE IS, HOWEVER, A POSITIVE PROSPECT FOR THIS APPROACH. IF THE BOJ IS SUCCESSFUL IN HOLDING THE EXCHANGE RATE WITHIN REASONABLY NARROW LIMITS (SAY J DOLS 5.50 - J DOLS 5.70 EQUAL U.S. DOLS 1.00), THE RATE OF PRICE INFLATION SHOULD BE SLOWED MARKEDLY. THIS IN TURN COULD HAVE THE EFFECT OF REDUCING NOMINAL INTEREST RATES WITHOUT REDUCTIONS IN THE REAL RATE AND PERHAPS EVEN WITH INCREASING REAL RATES. (STILL, THERE IS THE DANGER THAT THE IMMEDIATE EFFECT OF THE PROGRAMMED MONETARY STRINGENCY WOULD BE A CREDIT CRISIS WHICH WOULD CAUSE NOMINAL INTEREST RATES TO RISE FURTHER BEFORE FALLING.) IF AND AS WEALTH OWNERS BEGIN TO BELIEVE THAT THE PRICE AND EXCHANGE RATE STABILITY WILL ENDURE (OR THAT RATE DECREASES ARE ALMOST AS LIKELY AS INCREASES), AND REAL RATES OF INTEREST WILL REMAIN POSITIVE, THE INCENTIVE TO CAPITAL FLIGHT WOULD BE SIGNIFICANTLY EASED. IT IS WIDELY BELIEVED THAT JAMAICANS HOLD MANY MILLIONS OF DOLLARS IN FOREIGN BANK ACCOUNTS. TIGHT DOMESTIC MONETARY POLICY, STABLE PRICES, A STABLE AND CREDIBLE EXCHANGE RATE, POSITIVE REAL RATES OF INTEREST, AND RELATIVELY LOW TAXES (UNDER THE IMMINENT REFORM OF THE INCOME TAX REGIME) ALL SERVE TO ENCOURAGE AN INFLOW OF THESE AND OTHER FOREIGN FUNDS TO JAMAICA.

32. AS THE FOREGOING DISCUSSION SUGGESTS, THE HEAR

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AIDAC, JOINT STATE/AID MESSAGE

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TERM SUCCESS OF THIS STRATEGY WILL DEPEND IMPORTANTLY ON (1) THE PUBLIC'S PERCEPTION OF THE CREDIBILITY OF INTEREST RATES, PRICES, AND THE EXCHANGE RATE GIVEN THE UNDERLYING REAL MARKET FORCES, (2) THE RELATIVE SPEEDS WITH WHICH GAINERS AND LOSERS FROM THE POLICIES REACT, AND (3) THE MAGNITUDES OF THOSE RESPONSES. TO THE EXTENT THAT SIGNIFICANT FOREIGN EXCHANGE INFLOWS DO OCCUR, AND TO THE EXTENT THAT HIGHER TARIFFS CHECK OFF IMPORT DEMAND, THE RECESSIONARY IMPACT OF A RESTRICTIVE DOMESTIC CREDIT POLICY AND ITS RECESSIONARY IMPACT ON CREDIT AVAILABILITY WILL BE OFFSET. IF, AS SOME OBSERVERS BELIEVE, HISTORICALLY HIGH NOMINAL RATES OF INTEREST DETER INVESTMENT REGARDLESS OF WHETHER THE INFLATION-ADJUSTED RATE IS POSITIVE OR NEGATIVE, REAL PRODUCTIVE INVESTMENT MIGHT BE FURTHER ENCOURAGED.

33. IN CANDOR, WE MUST OBSERVE THAT THE FOREGOING SCENARIO IS UNLIKELY. THE PROBLEM IS THAT, IN THE ABSENCE OF SIGNIFICANT AND PROMPT INFLOWS OF NEW RESERVES, THE PROPOSED EXCHANGE RATE POLICY WILL REQUIRE THAT IMPORT DEMAND BE REDUCED BY SOMETHING LIKE U.S. DOLS 100 MILLION, (LESS THE EFFECT OF TARIFF INCREASES). TO ACCOMPLISH THIS PRIMARILY THROUGH GENERAL MONETARY POLICY COULD, WE ROUGHLY ESTIMATE, REQUIRE AN ADDITIONAL REDUCTION OF NATIONAL MONEY INCOME OF TWICE THAT MUCH, OR APPROXIMATELY 20 PERCENT. EVEN IF THIS OVER-ESTIMATES THE DEPRESSANT EFFECT BY THREE OR FOUR TIMES, THE RESULT IS ECONOMICALLY DISASTROUS. THE PROSPECT OF REPLACING ALL OF THAT BY WAY OF PRIVATE INFUSIONS OF FOREIGN EXCHANGE, IN THE SAME TIME PERIOD, SEEMS REMOTE AT BEST. NEVERTHELESS, IN THE ABSENCE OF ADDITIONAL RESOURCES, THERE MAY BE NO OTHER RECOURSE IF THE EXCHANGE RATE AND PRICES ARE TO BE HELD IN THE NEIGHBORHOOD OF THEIR PRESENT LEVELS. AND TO THE EXTENT EXTRA RESOURCES ARE GENERATED, PROSPECTS IMPROVE.

C. USAID STRATEGY FOR 1985 - 1986

34. THE MISSION'S STRATEGY IS TO SUPPORT SEAGA IN HIS EFFORTS TO MAKE THE BEST OUT OF SEVERAL VERY DIFFICULT ALTERNATIVES. WITH RESPECT TO THE DOLS 51 MILLION IN AVAILABLE ESF, OUR STRATEGY IS TO PUT THIS IN PLACE AFTER THE GOVERNMENT HAS APPROVED THE TAX REFORM FOR SUBMISSION TO PARLIAMENT, BUT IN TIME TO ASSIST THE

GOJ TO MEET THE PERFORMANCE REQUIREMENTS TO PERMIT APPROVAL OF THE TECHNICAL WAIVER BY THE IMF BOARD; THE OCTOBER, 1985 DRAWING OF DOLS 13 MILLION MAY BE MADE; AND THE COMMERCIAL BANK GROUP MEETING OF JANUARY 15, 1986 SATISFIED THAT JAMAICA IS CONTINUING ON A PATH OF DISCIPLINED FISCAL AND MONETARY MANAGEMENT. THE US DOLS 30.0 MILLION, FY 1986 PL-450 TITLE I PROGRAM WILL REINFORCE OUR ESF SUPPORT. MOREOVER, WE ARE ENERGETICALLY ACCELERATING OUR DEVELOPMENT ASSISTANCE PORTFOLIO TO NOT ONLY GET THE MACRO EFFECT OF MORE RAPID IMPLEMENTATION, BUT WE ARE SHIFTING ITS FOCUS TO SUPPORT MORE DIRECTLY, INVESTMENT, PRODUCTION, CONTINUATION OF ESSENTIAL SOCIAL SERVICES, AND IMPLEMENTATION OF THE TAX AND DIRECTMENT EFFORTS. OTHER MAJOR DONORS ARE DOING LIKEWISE. FOR EXAMPLE, WORLD BANK TEAM WILL SPEND DECEMBER, 1985, LOOKING FOR WAYS TO ACCELERATE IBRD PROJECTS. THE "FRESH LOOK" TEAM WILL MOST CERTAINLY BE MAKING PROPOSALS FOR FURTHER SHIFTS IN EMPHASIS AS WELL AS ADDITIONAL RESOURCES. SUPPLEMENTAL ESF (BEYOND THE REMAINING DOLS 19 MILLION) AS WELL AS INCREASED PL-450 TITLE I TO REPLACE THE US DOLS 60 PLUS MILLION IN CCC-GSM 102 CREDITS ARE BOUND TO EMERGE FROM THEIR REPORT.

35. TAX REFORM, IN TERMS OF ITS BOLDNESS OF CONCEPTION AND POTENTIAL FOR MAJOR STRUCTURAL REFORM, IS A NECESSARY AND SUFFICIENT STEP FORWARD TO JUSTIFY THE DISBURSEMENT OF THIS DOLS 51 MILLION TRANCHE. THE TIMING OF THIS DISBURSEMENT SO THAT THE IMF WAIVER IS SECURED AND THE COMMERCIAL BANKS ARE SATISFIED IS ABSOLUTELY ESSENTIAL. THERE PROBABLY WILL NOT BE ANOTHER CHANCE TO KEEP THE JAMAICAN ECONOMY FROM SLIDING INTO THE "GUYANA MORASS". IF THE JANUARY 15, 1986 WINDOW OF OPPORTUNITY IS NOT SEIZED, THE COMMERCIAL BANKS DEBT SERVICING DEAL COMES APART, THE CCC-GSM 102 FOOD SUPPLY LINE WILL BE INTERRUPTED, THE PARIS CLUB WILL NOT MEET, THE FAA SECTION 620 (Q) AND

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FOR FY 86 ESF GRANT TO JAMAICA

BROOKE-ALEXANDER PROVISIONS WILL COME INTO EFFECT, AND  
SIMILAR IBRD AND IDB PROVISIONS WILL DRY UP THOSE  
SOURCES AS WELL.

III. CONCLUSION

36. AN ECONOMIST RECENTLY SUMMARIZED JAMAICA'S  
STRUCTURAL BALANCE OF PAYMENTS PROBLEM AS ONE OF A  
"DOMESTIC IMBALANCE CREATED AND SUSTAINED BY  
OVERBLOATED GOVERNMENT EXPENDITURES FINANCED BY  
CENTRAL BANK CREDIT CREATION TO ACCOMMODATE THE  
PROFLIGACY OF GOVERNMENT'S SPENDING, MORE OFTEN THAN  
NOT, INSPIRED BY INCOME REDISTRIBUTION CONSIDERATIONS  
WITH SCANT REGARD FOR INCOME GENERATING PROCESSES,  
INSTITUTIONS AND NORMS."

37. THIS STATEMENT WAS MADE NOT BY A REPRESENTATIVE OF  
THE IMF, WORLD BANK OR USAID, BUT, RATHER, THE NEWLY  
APPOINTED DIRECTOR OF THE PLANNING INSTITUTE OF  
JAMAICA. THE APPENDIX OUTLINES THE HIGHLY PROMISING  
EFFORTS OF THE SEAGA ADMINISTRATION TO IMPLEMENT  
FISCAL REFORMS TO REDUCE PUBLIC EXPENDITURES FROM  
THEIR HIGH AND UNSUSTAINABLE LEVELS AT PRESENT. THIS  
SECTION ALSO POINTS TO POSSIBLE ORDERS OF MAGNITUDE  
FOR A SUPPLY SIDE RESPONSE FROM EXPORTS IN THE MEDIUM  
RUN AS A RESULT OF A MORE PROPITIOUS POLICY  
ENVIRONMENT.

38. AT THE PRESENT, HOWEVER, JAMAICA STANDS AT A  
CROSSROADS. TWO BASIC SCENARIOS FOR ITS FUTURE ARE  
CONCEIVABLE. UNDER THE PESSIMISTIC SCENARIO, THE  
SHORT RUN PROBLEM OF ADJUSTING TO CONTRACTING REAL  
AGGREGATE RESOURCES WILL NOT BE RESOLVED. AS THE  
POLITICAL AND SOCIAL FABRIC UNRAVELS, TOURISM WILL BE  
SERIOUSLY AFFECTED, AND THE ENTIRE ECONOMY WILL  
FALTER, THEREBY CREATING A VICIOUS CYCLE OF ECONOMIC  
CONTRACTION. IN THE END, JAMAICA WOULD BE REDUCED TO  
LEVELS OF IMMISERATION ON A PAR WITH HAITI.

39. UNDER THIS SCENARIO, THE ROAD TO HAITI RUNS  
THROUGH GUYANA, I.E., BY BREAKING, AS GUYANA DID, WITH  
THE IMF. BREAKING WITH THE IMF HAS THE CASCADING  
EFFECT OF SEVERING RELATIONS WITH THE WHOLE HOST OF  
DONORS AND CREDITORS, SUCH AS THE IBRD, A.I.D., THE  
COMMERCIAL BANKS AND OTHERS. THE END RESULT IS TO BE  
CUT OFF FROM INTERNATIONAL FINANCIAL MARKETS AND  
LOSING THE OPPORTUNITY TO DEAL WITH SHORT RUN ECONOMIC  
CONTRACTIONS BY FINANCING RATHER THAN ADJUSTMENT.

40. THE OTHER SCENARIO STANDS IN STARK RELIEF TO THIS  
ONE. UNDER THE OPTIMISTIC ONE, JAMAICA WILL, WITH  
DONOR ASSISTANCE, WEATHER THE PRESENT SHORT RUN  
CRISIS, AND REALIZE THE INHERENT POTENTIAL OF ITS  
STRUCTURAL ADJUSTMENT PROGRAM. ITS EXPORT LED,  
PRIVATE SECTOR DOMINATED STRATEGY WILL COME TO  
FRUITICHA, AND LEVELS OF MATERIAL PROSPERITY DESIRED BY  
MOST JAMAICANS WILL BE SLOWLY BUT STEADILY  
APPROACHED. THIS WILL HAVE THE EFFECT OF REINFORCING  
POLITICAL AND SOCIAL STABILITY WHICH IN TURN WILL  
FACILITATE FURTHER ECONOMIC DEVELOPMENT. BUT THIS IS  
NOT A QUICK SOLUTION UNDER ANY CIRCUMSTANCES. IT  
REQUIRES CONTINUING ADJUSTMENT AND REFORM BY THE GOJ,  
CONTINUED SUPPORT BY DONORS, TIME, AND SOME FAVORABLE  
BREAKS.

41. FOR THE REASONS OUTLINED IN THIS PAAD, THE U.S.  
COUNTRY TEAM BELIEVED THAT WITH OUR ASSISTANCE JAMAICA  
CAN STILL OPT FOR THE LATTER SCENARIO AND THAT  
JAMAICA'S PERFORMANCE AND IMPORTANCE MERITS IMMEDIATE  
AND CONTINUED SUBSTANTIVE SUPPORT TO HELP IT OVERCOME  
ITS SHORT RUN CRISIS.

APPENDIX I. FURTHER MACROECONOMIC OBSERVATIONS

A. THE BALANCE OF PAYMENTS

42. AS NOTED EARLIER, THE NET LOSS TO THE JAMAICAN  
ECONOMY FROM THE CONTRACTION OF THE BAUXITE AND  
ALUMINA SECTOR IS LIKELY TO BE U.S. DOLS 100 - 110  
MILLION IN 1985. THIS CONTRACTION HAS TO BE  
CONSIDERED PERMANENT IN THAT THE NOW CLOSED, HIGH  
ENERGY COST ALUMINA PLANT HAS EFFECTIVELY BEEN  
REPLACED BY NEW, EFFICIENT PLANTS IN OTHER COUNTRIES

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FOR FY 86 ESF GRANT TO JAMAICAWITH CO-LOCATED, LOW COST ENERGY SOURCES. INDEED,  
FURTHER CLOSURES OF JAMAICAN ALUMINA PLANTS MAY OCCUR  
IN THE FUTURE FOR THIS SAME REASON.

43. THE BOJ AND IMF HAVE RECENTLY PREPARED VARYING SCENARIOS ON THE IMPACT OF THIS LOSS FOR JAMAICA'S BALANCE OF PAYMENTS IN JFY 1985-1986. BOTH PROJECTIONS ASSUME THAT GDP WILL DECLINE BY 3 PERCENT. THE BOJ MODEL, ASSUMING USAID ESF INFLOWS OF U.S. DOLS 65 MILLION, PROJECTS NO UNFINANCED FOREIGN EXCHANGE GAP. THE IMF MODEL, ON THE OTHER HAND, ASSUMING USAID ESF INFLOWS OF U.S. DOLS 50 MILLION, PROJECTS AN UNFINANCED FOREIGN EXCHANGE GAP OF U.S. DOLS 134 MILLION. (THE BASIC DIFFERENCE BETWEEN THE TWO PROJECTIONS IS TO BE FOUND IN THE BOJ'S MORE OPTIMISTIC ASSUMPTIONS ABOUT PRIVATE CAPITAL INFLOWS.)

44. BASED ON THE EXTREME POINTS OF THESE TWO ESTIMATES, THEN, JAMAICA'S NEED FOR ESF WOULD RANGE FROM U.S. DOLS 65 MILLION TO U.S. DOLS 184 MILLION. THESE LEVELS WOULD BE HIGHER, OF COURSE, FOR A TARGETED DECLINE IN GDP OF LESS THAN 3 PERCENT.

45. NO PLAUSIBLE EXTRAPOLATION OF JAMAICA'S BALANCE OF PAYMENTS EXPERIENCE OVER THE PAST FOUR YEARS WOULD SUGGEST AN INFUSION OF FOREIGN EXCHANGE OF SUFFICIENT MAGNITUDE TO COMPENSATE FOR THE LOSS OF FOREIGN EXCHANGE EARNINGS THAT HAS BEEN OCCASIONED BY THE BAUXITE/ALUMINA CONTRACTION. WHILE THERE IS NO PANACEA FOR JAMAICA'S BALANCE OF PAYMENTS DIFFICULTIES IN THE MEDIUM RUN, THE CUMULATIVE IMPACT OF THE VARIOUS STRUCTURAL ADJUSTMENTS SHOULD BEGIN TO MAKE ITSELF FELT BETWEEN NOW AND 1990 IN THE FORM OF INCREASED INVESTMENT AND EXPORTS OF AGRICULTURAL PRODUCTS AND MANUFACTURES, PLUS INCREASED TOURISM EARNINGS.

46. JAMAICA'S IMPORT BILL IN 1985 AND A PLAUSIBLE PROJECTION BY THE WORLD BANK FOR 1990, IN CONSTANT U.S. DOLLARS, AND THE SOURCES OF FOREIGN EXCHANGE REVENUE TO MEET THE IMPORT BILL ARE GIVEN IN TABLE III. THE 1990 FIGURES ASSUME A POSITIVE GDP GROWTH RATE OF 2 PERCENT PER ANNUM FROM 1987 ONWARD. WHILE THE BANK'S ASSUMPTION THAT THE LEVEL OF IMPORTS WILL GROW AT 2 PERCENT A YEAR SEEMS HIGH, IMPORTS ARE NOW VERY COMPRESSED, AND AN EXPANSION OF IMPORTS WILL BE NEEDED IF GDP IS TO SHOW ANY REAL GROWTH. THE

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FIGURES FOR 1990 ARE MADE "INFORMALLY" TO USE THE MOST CHARITABLE CHARACTERIZATION. SUCH FIGURES ARE INTERESTING, NONETHELESS, BECAUSE THEY INDICATE THE POSSIBLE ORDERS OF MAGNITUDE OF THE IMPACT OF POLICY REFORMS.

- ILLUSTRATION OF JAMAICA'S FOREIGN EXCHANGE NEEDS  
- AND SOURCES (CONSTANT U.S. DOLS MILLION)

- 1985 1990

## FOREIGN EXCHANGE NEEDS

|                                   |      |      |
|-----------------------------------|------|------|
| - IMPORT OF GOODS                 | 1009 | 1552 |
| - IMPORT OF FACTOR SERVICES (NET) | 309  | 344  |
| - IMPORT OF NON-FACTOR SERVICES   | 321  | 458  |
| - DEBT REPAYMENTS                 | 400  | 450  |
| -                                 |      |      |
| - TOTAL NEEDS                     | 2039 | 2614 |

## MAIN REVENUE SOURCES

|  |       |       |
|--|-------|-------|
| - EXPORTS                                    | 612   | 1125  |
| - BAUXITE, ALUMINA                           | (322) | (407) |
| - SUGAR                                      | (58)  | (74)  |
| - BANANAS                                    | (6)   | (14)  |
| - OTHER AGRICULTURAL                         | (24)  | (45)  |
| - OTHER NON-TRADITIONAL                      | (170) | (521) |
| - OTHER EXPORTS                              | (32)  | (119) |
| -  |       |       |
| - TOURISM                                    | 472   | 700   |
| - OTHER NON-FACTOR SERVICES                  | 145   | 239   |
| - REMITTANCES                                | 135   | 175   |
| - PUBLIC CAPITAL (MAINLY FOREIGN ASSISTANCE) | 700   | 550   |
| - PRIVATE INVESTMENT                         | 50    | 100   |
| - CHANGE IN RESERVES                         | -75   | -75   |

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FOR FY 86 ESF GRANT TO JAMAICA

- (INCREASE MINUS)

- TOTAL REVENUE 2039 2814

SOURCE: DERIVED BY USAID/J FROM INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT: JAMAICA: ECONOMIC SITUATION AND PUBLIC INVESTMENT, VOL. 1, P. 42.

47. THE FIGURES HIGHLIGHT THE NEED FOR A VERY STRONG GROWTH PERFORMANCE IN EXPORTS AND OTHER FOREIGN EXCHANGE EARNINGS. EXPORTS WILL HAVE TO GROW BY 13 PERCENT PER YEAR, AND OVERALL FOREIGN EXCHANGE EARNINGS BY 6.7 PERCENT PER YEAR. THIS IN TURN REQUIRES THAT THE REFORMS IN THE POLICY AREAS WHICH AFFECT THE EXPORT SECTOR IN GENERAL AND THE DIFFERENT SUBSECTORS IN PARTICULAR BE CONSOLIDATED AND IN SOME INSTANCES EXTENDED. THE PROJECTIONS ALSO ASSUME THAT THE SUBSECTORS WILL EXPERIENCE NO MAJOR EXOGENOUS SHOCKS. CLEARLY, THE DECISION TO ALLOW MARKET FORCES TO DETERMINE THE PRICE OF FOREIGN EXCHANGE PROVIDED A SUBSTANTIAL BOOST TO EXPORTERS. A BRIEF SURVEY OF THE MAJOR SUBSECTORS EARNING FOREIGN EXCHANGE DEMONSTRATES THAT THIS POLICY REFORM WAS A NECESSARY IF NOT SUFFICIENT CONDITION FOR EXPANDING FOREIGN EXCHANGE EARNINGS.

48. TOURISM - THE GROWTH IN RECEIPTS SINCE 1980 HAS BEEN THE RESULT OF A VIGOROUS PROMOTION CAMPAIGN AND AN OVERALL BETTER INTERNATIONAL PERCEPTION OF JAMAICA. AT PRESENT THERE IS A NEED TO SEARCH FOR NEW INVESTORS. THE ESTIMATES FOR 1990 INDICATE THAT TOURISM WILL IN ALL LIKELIHOOD REMAIN THE PREEMINENT EARNER OF FOREIGN EXCHANGE. THIS UNDERSCORES THE NECESSITY OF NOT EXPOSING THIS FRAGILE SECTOR TO THE POLITICAL AND SOCIAL TURMOIL THAT MIGHT ACCOMPANY ANY DRASTIC SHORT RUN ADJUSTMENT MEASURES.

49. NON-TRADITIONAL EXPORTS - THE PROJECTIONS ASSUME THAT NON-TRADITIONAL EXPORTS WILL RISE BY 25 PERCENT PER ANNUM. WHILE THIS SEEMS HIGH, A 20 PERCENT GROWTH RATE WAS ACHIEVED IN 1984, MAINLY ON THE STRENGTH OF 807 GARMENT OPERATIONS. USAID INTENDS TO DEVOTE SIGNIFICANT RESOURCES TO EXPAND NON-TRADITIONAL EXPORTS OVER THE COMING YEAR THROUGH A PACKAGE OF TC&TG ACTIVITIES. THE POTENTIAL FOR USAID INTERVENTION IN THIS AREA WAS THE SUBJECT OF A RECENT ASSESSMENT. MEMBERS OF THE ASSESSMENT TEAM CONCLUDED THAT A SERIES OF INTERRELATED NEEDS WERE REQUIRED TO PROMOTE NON-TRADITIONAL EXPORTS, INCLUDING MARKETING

INFORMATION, TECHNICAL ASSISTANCE, TRAINING, AND FINANCE. NOT SURPRISINGLY, THE TEAM FOUND THAT THE EXCHANGE RATE REFORM WAS A NECESSARY IF NOT SUFFICIENT CONDITION FOR EXPANDING NON-TRADITIONAL EXPORTS. THE TEAM CONCLUDED THAT, IN ADDITION TO GARMENTS AND APPAREL, OTHER PROMISING SUBSECTORS INCLUDED ELECTRONICS, HANDICRAFTS, FURNITURE, FRESH FRUITS AND VEGETABLES, FLOWERS, PROCESSED FOOD, DRINK AND TOBACCO, DATA ENTRY, AND PACKAGING.

50. BAUXITE AND ALUMINA - THE WORLD BANK FIGURES ASSUME SOME RECOVERY IN THIS SUBSECTOR BY 1990, WHILE EMBASSY/USAID BELIEVES THAT THE RECENT CONTRACTIONS WILL BE MORE OR LESS PERMANENT. FOR THE SECTOR TO DEMONSTRATE A STRONG RECOVERY, SOME COMBINATION OF THE FOLLOWING EVENTS WOULD HAVE TO OCCUR: (A) A STRONG RECOVERY OF WORLD DEMAND FOR BAUXITE AND ALUMINA; (B) SUSPENSION BY GOJ OF THE PRODUCTION LEVY IN THE SHORT RUN AND RESTRUCTURING IN THE LONG RUN TO MAKE IT MORE OR LESS EQUIVALENT IN ITS TAX BITE WITH OTHER PRODUCERS; (C) INVESTMENT TO INCREASE THE ENERGY EFFICIENCY OF JAMAICA'S ALUMINA PLANTS, ESPECIALLY THE ALPART FACILITY, WHICH WAS RECENTLY CLOSED. THE REOPENING OF ALPART, UNDER ANY FORESEEABLE CONDITIONS, IS MOST UNLIKELY.

51. OTHER AGRICULTURAL EXPORTS - THE EXTERNAL MARKETING ORGANIZATIONS FOR COFFEE, COCOA, CITRUS AND PIMENTO HAVE SUBSIDIZED INEFFICIENT NON-MARKETING ACTIVITIES THROUGH LOW PRODUCER PRICES MADE POSSIBLE BY THE MONOPSONY POSITION. RECENT REFORM PROGRAMS INCLUDE REVISING PRODUCER PRICES UPWARDS AND DIVESTING NON-MARKETING ACTIVITIES TO THE PRIVATE SECTOR. DEREGULATION OF MARKETING SHOULD CONTINUE FOR THIS SUBSECTOR TO INCREASE ITS FOREIGN EXCHANGE EARNINGS.

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INFO FILE-01 ARA-04 PPC-01 DECP-01 ECP-01 RPP-02 OAS-01  
PPA-01 DCAR-01 DEP-02 JM-02 XLE-01 /018 A2 JP

INFO LOG-00 COPY-01 CIAE-00 EB-08 DODE-00 ARA-00 /009 W  
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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC IMMEDIATE 3486

UNCLAS SECTION 14 OF 15 KINGSTON 11859

AIDAC JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E.O. 12356: N/A  
TAGS: EFIN, EAIO, ECON, JM  
SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
FOR FY 35 ECF GRANT TO JAMAICA

52. BANANAS - THE INDUSTRY IS IN THE PROCESS OF RADICAL RESTRUCTURING. THE OLD, INEFFICIENT, JAMAICAN OWNED BANANA COMPANY HAS BEEN ABOLISHED. OWING TO DEVALUATION, PRODUCER PRICES HAVE REACHED RECORD HIGHS. HOWEVER, GOVERNMENT'S ROLE IN THIS SECTOR IS STILL TOO LARGE.

53. SUGAR - LARGE PUBLIC SUBSIDIES HAVE BEEN NECESSARY TO KEEP THE INDUSTRY ALIVE. RECENTLY, IN AN EFFORT TO REFORM THIS SUBSECTOR, SOME FACTORIES HAVE BEEN CLOSED, DOMESTIC PRICES RAISED, AND EXPERT FOREIGN MANAGEMENT HAS BEEN CONTRACTED TO RUN THE INDUSTRY. A SUGAR REHABILITATION PROGRAM HAS BEEN DEVELOPED FOR THAT PART OF THE INDUSTRY PRODUCING FOR ASSURED MARKETS.

54. FOREIGN INVESTMENT - AS DESCRIBED EARLIER, A RECENT GOJ - USG STUDY ON INVESTMENT HAS RECEIVED SERIOUS GOJ CONSIDERATION. PROJECTED SUCCESS WILL REQUIRE SUSTAINED EFFORT AND CLOSE COORDINATION BY MANY GOJ AGENCIES.

B. PUBLIC FINANCES

55. ALTHOUGH OVERALL LEVELS OF PUBLIC SECTOR EXPENDITURE REMAIN HIGH AS A PERCENTAGE OF GDP, THE SEAGA ADMINISTRATION HAS TAKEN POSITIVE STEPS TO REDUCE THE OVERALL DEFICIT, AND TO RATIONALIZE THE CAPITAL AND CURRENT EXPENDITURE PROCESS.

56. IN 1981, THE SEAGA GOVERNMENT ADOPTED A FOUR PART POLICY TO DEAL WITH THE PROBLEM OF PUBLIC FINANCES: ON THE EXPENDITURE SIDE, (1) BY CONTAINING CURRENT EXPENDITURE, (2) BY INCREASING DOMESTIC REVENUE, (3) BY RAISING HIGHER LEVELS OF FOREIGN FINANCING OF THE DEFICIT TO RELEASE DOMESTIC RESOURCES FOR THE PRIVATE SECTOR AND (4) ON THE REVENUE SIDE, BY REFORMING THE TAX SYSTEM, AS OUTLINED IN AN EARLIER SECTION.

57. LITTLE IMPROVEMENT HAD BEEN MADE IN PUBLIC EXPENDITURES PRIOR TO 1984/85. HOWEVER, A MAJOR EFFORT HAS NOW BEEN MADE, AND THE CENTRAL GOVERNMENT'S OVERALL DEFICIT FELL IN 1984/85 TO UNDER 3 PERCENT OF GDP, A CUT OVER 3 PERCENT OF GDP IN ONE YEAR. THIS WAS ACHIEVED BY HOLDING DOWN BOTH CURRENT AND CAPITAL EXPENDITURES WHILE REVENUE ROSE BY OVER 50 PERCENT IN RESPONSE BOTH TO THE DEVALUATION AND THE CONSEQUENT INFLATION AND CERTAIN REVENUE MEASURES THAT WERE TAKEN, (ALTHOUGH THESE ONLY ACCOUNTED FOR ABOUT 25

PERCENT OF THE INCREASE). CURRENT EXPENDITURES FELL BY ABOUT 12 PERCENT IN REAL TERMS, INCLUDING A REDUCTION IN THE CENTRAL GOVERNMENT'S LABOR FORCE BY SOME 4,000 POSTS, OR ABOUT 4 PERCENT OF THE CIVIL SERVICE.

58. WITH RESPECT TO CAPITAL AND CURRENT EXPENDITURES, MOST OF THE DISCUSSION OF JAMAICA'S SITUATION CENTERS ON ITS PUBLIC SECTOR INVESTMENT PROGRAM (PSIP). THE ADOPTION OF A THREE YEAR PSIP, TO BE ANNUALLY REVIEWED AND UPDATED, WAS AN IMPORTANT PART OF JAMAICA'S 1983 SPONSORED STRUCTURAL ADJUSTMENT PROGRAM. THE FOCUS ON A MULTI-YEAR PUBLIC INVESTMENT PROGRAM HAD A NUMBER OF DIFFERENT OBJECTIVES: (I) TO PERMIT AN OVERALL VIEW OF THE ENTIRE PUBLIC SECTOR, INCLUDING THE CENTRAL GOVERNMENT AND ALL THE MAJOR PUBLIC ENTERPRISES, IN TERMS OF THE INVESTMENT EFFORT AND ITS FISCAL AND MONETARY IMPACT; (II) TO ENABLE THE GOVERNMENT TO GAIN BETTER KNOWLEDGE AND CONTROL OF THE INVESTMENT AND FINANCIAL PERFORMANCE OF THE PUBLIC ENTERPRISES; (III) TO FORECAST THE IMPLICATIONS OF EXISTING INVESTMENT FOR THE FUTURE FISCAL SITUATION; AND (IV) TO HELP ENSURE THAT THE PUBLIC INVESTMENT PROGRAM SUPPORTED THE GOALS OF THE ECONOMIC STABILIZATION AND STRUCTURAL ADJUSTMENT PROGRAM. AS A PART OF THE PSIP, A MONITORING SYSTEM WAS DEVELOPED AND A FORMAL DECISION-MAKING PROCESS IS IN PLACE. PRIME AREAS FOR IMPROVEMENT INCLUDE INTEGRATING THE PSIP PROCESS AND THE BUDGET PROCESS. CONTINUED IMPROVEMENTS IN APPROVAL OF TECHNIQUES AND APPROVAL PROCEDURE WILL ALSO BE NEEDED, AS WELL AS EFFORTS TO MAKE THE MONITORING SYSTEM MORE RELEVANT.

59. AN IMPORTANT AREA FOR FURTHER ANALYSIS LIES IN THE

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TELEGRAM

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UNCLAS SECTION 15 OF 15 KINGSTON 11859

AIDAC, JOINT STATE/AID MESSAGE

STATE FOR AID/LAC

E. O. 12356: N/A  
TAGS: EFIN, EAID, ECON, JM  
SUBJECT: PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)  
FOR FY 86 ESF GRANT TO JAMAICA

RELATIONSHIP AND RELATIVE IMPORTANCE OF CAPITAL VERSUS  
CURRENT EXPENDITURES. TWO POINTS NEED TO BE  
STRESSED. FIRST, WHILE EVERYONE AGREES IN PRINCIPLE  
WITH THE NEED TO IDENTIFY THE IMPACT OF THE INVESTMENT  
PROGRAM ON CURRENT EXPENDITURES, NO EXPLICIT AGGREGATE  
ANALYSIS OF THIS HAS BEEN INCLUDED IN ANY PSIP SO FAR,  
ALTHOUGH SOME DISCUSSION TAKES PLACE AT THE  
PRE-SELECTION STAGE. PARTICULARLY DURING A PERIOD  
WHEN FISCAL CONSTRAINTS ARE SEVERE, IT IS CRITICAL TO  
IDENTIFY ADDITIONAL REQUIREMENTS AS A PART OF THE  
ANALYSIS. IDEALLY, THE GOVERNMENT SHOULD LOOK AT  
PUBLIC EXPENDITURES IN THEIR ENTIRETY, AND PREPARE A  
THREE YEAR PROJECTION OF BOTH CURRENT AND CAPITAL  
PROGRAMS WITH A COMPREHENSIVE FINANCING PLAN. WITH  
THE INSTITUTION OF A PERFORMANCE BUDGETING SYSTEM AND  
THE INTEGRATION OF AN ACCOUNTING SYSTEM IN SUPPORT,  
JAMAICAN INSTITUTIONS WILL BE A STEP CLOSER TO THAT  
GOAL. SECOND, THERE HAS BEEN A SERIOUS LACK OF

OUTLINE MAINTENANCE ALLOCATIONS IN THE RECURRENT  
BUDGET FOR ROADS, SCHOOLS, AND GOVERNMENT BUILDINGS.  
60. RECENTLY, AN ADMINISTRATIVE REFORM PROGRAM HAS  
BEEN LAUNCHED, AGAIN UNDER IBRD SPONSORSHIP. IT  
INCLUDES REVISIONS OF CIVIL SERVICES SALARIES, THE  
INTRODUCTION OF PERFORMANCE BUDGETING, AND  
DECENTRALIZED PERSONNEL POLICIES. AT THE SAME TIME,  
THE GOJ'S FISCAL PROGRAM HAS REDUCED THE NUMBER OF  
PUBLIC EMPLOYEES. GIVEN THE NEED TO REDUCE THE  
DEFICIT FURTHER, ADDITIONAL PERSONNEL CUTS WILL BE  
NECESSARY, AND THE ADMINISTRATIVE REFORM PROGRAM  
SHOULD HELP TO MAKE THIS A MORE RATIONAL PROCESS.  
(DRFTD: OPEP: SS/MMC, APRVD: OPEP: SSKOGSTAD)  
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5C(1) - COUNTRY CHECKLIST

JAMAICA FY 1986

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1985 Continuing Resolution Sec. 528. No  
Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?
  
2. FAA Sec. 481(h)(4). No  
Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

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) the 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(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No  
N.A.  
No  
No
6. 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

7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC? No
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? No
- (b) If so, has any deduction required by the Fishermen's Protective Act been made? N.A.
9. FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? No
- (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? No
10. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? Yes
- (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. 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
- N.A.
12. 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? (Reference may be made to the Taking into Consideration memo.)
- Not in arrears
- N.A.
13. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the President determined that the country (a) grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise supports international terrorism? Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed or is being sought by any other government for prosecution for any war crime or act of international terrorism?
- No
14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?
- No

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? No  
Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? No  
(FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? No

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

GOJ Ministry of Foreign Affairs is being queried on this item.

19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

N.A.

20. FY 1985 Continuing Resolution Sec. 530. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

N.A.

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2. Economic Support Fund  
Country Criteria

FAA Sec. 502B. Has it been  
determined that the country  
has engaged in a consistent  
pattern of gross violations  
of internationally  
recognized human rights?  
If so, has the country  
made such significant  
improvements in its human  
rights record that  
furnishing such assistance  
is in the national interest?

No

N.A.

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3(A)2 NONPROJECT ASSISTANCE CHECKLIST

- Production & Employment VI  
PAAD (532-0111)

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 Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the 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?

Yes  
Jamaica FY 1986  
Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

Congressional Notification

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 Is assistance more efficiently and effectively given through regional or multilateral organizations? If

No

so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

N.A.

4. FAA Sec. 601(a) 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.
5. FAA Sec. 601(b) Information and conclusions 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).
6. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. 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 U.S. are utilized in lieu of dollars.

The program will provide balance of payments support to the Government of Jamaica (GOJ) required for its economic recovery program. The funds will assist the GOJ to continue the stabilization program begun earlier, to proceed with efforts to remove restrictions on the economy which hinder longer term development, and to promote increase production and employment. This funding is critical to Jamaica's economic recovery.

The assistance will promote the development of Jamaican private sector activities resulting in trade linkages with the U.S. private sector and increased exports from the U.S. to Jamaica.

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

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7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N.A.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? N.A.
10. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

Yes, the assistance will assist Jamaica in meeting present critical foreign exchange deficit, and permit essential imports.

Yes

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

No

N.A.

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

N.A.

N.A.

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N.A.

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities

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which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207.

Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

No

N.A.

g. 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. Nonproject Criteria for  
Development Assistance

N.A.

a. FAA Sec. 102(a); 111; 113;  
281(a). Extent to which  
activity will (a) effectively  
involve the poor in  
development, by extending  
access to economy at local  
level; increasing  
labor-intensive production and  
the use of appropriate  
technology, spreading  
investment out from cities to  
small towns and rural areas,  
and insuring wide  
participation of the poor in  
the benefits of development on  
a sustained basis, using the  
appropriate U.S. institutions;  
(b) help develop cooperatives,  
especially by technical  
assistance, to assist rural  
and urban poor to help  
themselves toward better life,  
and otherwise encourage  
democratic private and local  
governmental institutions; (c)  
support the self-help efforts  
of developing countries; (d)  
promote the participation of  
women in the national  
economies of developing  
countries and the improvement  
of women's status; and (e)  
utilize and encourage regional  
cooperation by developing  
countries?

b. FAA Sec. 103, 103A, 104,  
105, 106, 107. Is assistance  
being made available:  
(include only applicable  
paragraph which corresponds to  
source of funds used. If more  
than one fund source is used  
for assistance, include  
relevant paragraph for each  
fund source.)

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data

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collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other

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institutions to help urban poor participate in economic and social development.

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

d. FAA Sec. 281(b) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

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