

PD-ABF 132  
80089

A.I.D. Project No: 532-0164  
Grant Number 532-K-606B

AMENDMENT NO. 2  
TO THE  
GRANT AGREEMENT  
BETWEEN  
THE GOVERNMENT OF JAMAICA  
AND THE  
THE GOVERNMENT OF THE UNITED STATES OF AMERICA  
ACTING THROUGH  
THE AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
POLICY REFORM IN SUPPORT OF PRIVATE INVESTMENT

Date: **SEP 28 1992**  
Appropriation: 72-112/31037  
BPC: LES292-35532K G31  
Amount: \$15,000,000

**FUNDS AVAILABLE**  
*MA Lewis*  
Signature *MA Lewis* Date 9/25/92

PROGRAM GRANT AGREEMENT

AMENDMENT NO. 2

The Government of Jamaica and the Government of the United States of America on September 26, 1991 entered into a Grant Agreement entitled "POLICY REFORM IN SUPPORT OF PRIVATE INVESTMENT" to support economic reforms to promote broad based economic growth led by the private sector.

The parties now desire to increase the total amount of the grant by \$15,000,000 and agree to amend the Program Grant Agreement further as follows:

- Section 1. Article 2, Section 2.2. The Grant is amended by deleting the words "twelve million United States Dollars (\$12,000,000)" and inserting in lieu thereof "Twenty-Seven Million United States Dollars (\$27,000,000)".
- Section 2. Terminal Date for Requesting Disbursement. The terminal date for requesting disbursement of funds made available under this Amendment is six (6) months from the date of this Amendment, except as A.I.D. may otherwise agree in writing. Following such date, A.I.D. shall be under no obligation to disburse any funds remaining undisbursed and may unilaterally deobligate such funds with no further notice to the Government of Jamaica.
- Section 3. Annex I, attached to this Amendment, modifies the original Amplified Program Description.

The original Grant Agreement, except as modified, remains in force.

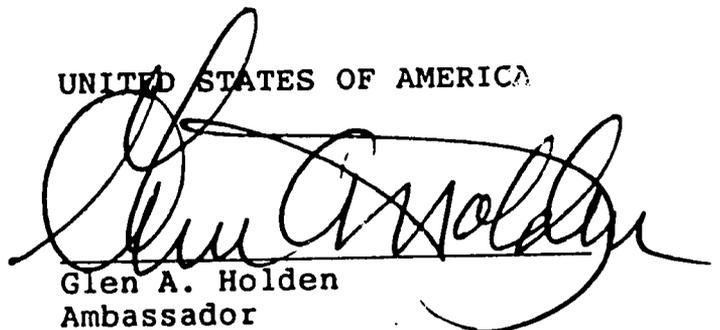
IN WITNESS WHEREOF, the Government of Jamaica and the UNITED STATES OF AMERICA, each acting through its duly authorized representative, have caused this Amendment to be signed in their names and delivered as of the date and year written below:

GOVERNMENT OF JAMAICA

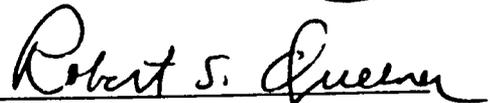


Hugh Small, Q.C.  
Minister of Finance & Planning

UNITED STATES OF AMERICA



Glen A. Holden  
Ambassador



Robert S. Queener  
Mission Director  
United States A.I.D.  
Mission to Jamaica

Date: Sept. 28, 1992

## ANNEX I

### POLICY REFORM IN SUPPORT OF PRIVATE INVESTMENT AMENDMENT II AMPLIFIED PROGRAM DESCRIPTION

#### I. PROGRAM PURPOSE

This amendment to the U.S. FY 91 Policy Reform in Support of Private Investment Program (PRISPI) proposes a specific agenda of policy reform during U.S. FY 92-93. The agenda, which is contained in a Program Matrix for Policy Reform, (Attachment I to this Annex) is structured to support important macro-economic policies contributing to sustainable growth and other policy objectives that will provide for a better private investment climate. The broad program objectives are to improve the macro-economic environment, attract greater foreign investment, accelerate the growth in exports and generally increase foreign exchange earnings.

#### II. FINANCIAL ARRANGEMENTS

Up to \$30 million in FY 92-93 ESF Funds will be transferred to the Government as cash transfers in FY 92-93 subject to the availability of funds and satisfactory progress on the policy matrix conditions. An initial tranche of \$15,000,000 will be transferred under the terms of this amendment. The funds will be deposited into a special interest bearing account in a U.S. bank in the U.S. to finance productive imports from the U.S. for the private sector in Jamaica. Upon transfer of the dollars, an equivalent amount of local currency will be deposited by the Government of Jamaica into an interest bearing account in Jamaica for counterpart contributions of (1) existing projects/programs funded by USAID, (2) other donor projects consistent with our strategic objectives, (3) new activities which fall within AID's policies and objectives, (4) audit services as may be required, and (5) deposits for Trust Funds to support USAID's operations in Jamaica. As imports are financed under the program, and local currency is thus generated, the local currency account established under the program will be adjusted to reflect actual generations.

Grant Assistance will be transferred to the special interest bearing account as soon as the appropriate financing request from the Government of Jamaica has been processed by USAID. The funds plus any accrued interest will be made available for financing U.S. imports upon agreement on the details of the import financing arrangements. The agreement will be documented in a Program Implementation Letter.

Attachment I

PROPOSED \$42 MILLION E.S.F. (SUBJECT TO AVAILABILITY OF FUNDS)  
PROGRAM MATRIX FOR POLICY REFORM IN SUPPORT OF PRIVATE INVESTMENT

ISSUE	BACK GROUND	FUNDS ALREADY OBLIGATED FROM FY 1991 ESF (\$12 MILLION)
<b>I. Economic Policies for Sustainable Growth</b>		
<b>A. Liberalization of the Foreign Exchange Regime.</b>	Prior to September 25, 1991, the Inter-Bank Foreign Exchange System resulted in a shortage of FX in the formal system, and overpricing of the Jamaican dollar. An active black market resulted at a premium of 60 to 70 percent, and large sums of capital were held off-shore.	GOJ committed to full liberalization of the foreign exchange regime (This, and further conditions set forth below, were the basis for the obligation of \$5 million FY 1991 ESF in September 1991). The GOJ in fact liberalized the FX regime on 9/25/91, including decontrol of capital movements. This was the basis for obligation of an additional \$7 million in January 1992.
<b>B. Monetary and Fiscal Policy.</b>	The GOJ must maintain a sound macro-economic framework to support and sustain its FX liberalization program, and to foster a better private investment environment. Major issues include historically high inflation and interest rates, high and rapid rate of monetary increase, and large and persistent public sector deficit.	Prior to obligation of \$5 million tranche in September 1991, maintenance of a sound macro-economic framework as indicated by performance on IMF Stand-by Agreement and approval of IDB Trade, Finance, and Investment loan. Prior to obligation of \$7 million tranche in January 1992, GOJ acts to reduce money supply growth through higher reserve requirements and open-market sales, and announces steps to reduce both FY 91-92 and FY 92-93 deficit.
<b>C. Bank of Jamaica Losses</b>	BOJ losses due to rising interest cost of domestic and foreign debt, and due to holdings of non-earning government bonds. BOJ losses amount to five to six percent of GDP. Critical issues of budgetary transparency and control are at stake, as well as the effective conduct of monetary and fiscal policy.	GOJ agreement in principle to exchange debt instruments with MOF sufficient to cover BOJ losses to Central Government accounts.
<b>D. Strengthening Fiscal Policy Process</b>	Sustainability of GOJ reform agenda requires clearer, more traditional roles for BOJ and MOF. In turn, this may require strengthening MOF fiscal analysis/policy formulation capabilities.	Commitment by the GOJ to study strengthening of fiscal analysis and fiscal policy formulation process, including MOF.

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FIRST TRANCHE FROM  
FY 1992 ESF

SECOND TRANCHE FROM  
FY 1992 ESF

FIRST TRANCHE FROM  
FY 1993 ESF

SECOND TRANCHE FROM  
FY 1993 ESF

I. Economic Policies for Sustainable  
Growth - (Continued)

A. Liberalization of the  
Foreign Exchange Regime

Full liberalization of the foreign  
exchange regime remains in force.

Full liberalization of the  
foreign exchange regime  
remains in force. Draft  
legislation to amend other  
Acts to allow for licensing  
and prudential provisions  
now in Foreign Exchange  
Control Act. Proposed  
repeal of Foreign Exchange  
Control Act.

Foreign Exchange Control Act  
repealed. Necessary amendments  
in other Acts passed and signed.

B. Monetary and Fiscal Policy

Implementation of tight fiscal  
and monetary policies to support  
foreign exchange decontrol.  
Understanding with IMF on  
Stand-by targets and  
IMF expectation of Extended  
Funding Facility. Overall public  
sector deficit of 0.5% of GDP in  
FY 92-93, and inflation rate  
below 20%.

GOJ maintains tight  
fiscal and monetary  
policies aimed at  
containing the government  
deficit, lowering money  
supply growth, and  
moderating rate of  
inflation.

GOJ continues necessary  
macro-economic policies to  
stabilize the economy, and  
support liberalization and  
decontrol. Measurable  
progress made on reducing the  
fiscal deficit and the growth  
of money supply, and lowering  
the rate of inflation.

GOJ maintains prudent  
fiscal and monetary  
policies necessary for  
stabilization of the  
economy. Public sector  
deficit and inflation have  
been reduced to levels  
consistent with a sound  
private sector investment  
environment -- 0.5% of  
GDP, and 20% respectively.

C. Bank of Jamaica Losses

Treasury will issue marketable  
securities to BOJ equal to its  
annual loss for 1991-92.  
Estimated interest payments  
on the related government  
securities will be reflected in  
the Government's 1992-93 budget.  
Assessment completed of further  
elimination of BOJ losses.

Timetable and action plan  
completed for final  
elimination of BOJ losses.

BOJ losses eliminated in  
accordance with timetable  
and action plan.

No actions to reintroduce  
BOJ losses.

D. Strengthening Fiscal  
Policy Process

Study of MOF's fiscal analysis and  
policy formulation capabilities  
completed. Agreement on action  
plan and related budget support.

Ex-patriate and Jamaican  
staff substantially in  
place. Fiscal Policy  
Management unit  
functioning in MOF.

Agreed upon institutional  
changes are being  
implemented.

MOF establishes  
analytically based fiscal  
targets which are reflected  
in budget. Improved debt  
management and ability to  
project budget and macro-  
economic performance.

ISSUE

BACKGROUND

FUNDS ALREADY OBLIGATED  
FROM FY 1991 ESF  
(\$12 MILLION)

I. Economic Policies for Sustainable Growth  
(Continued)

E. General Consumption Tax

The GOJ announced that implementation would begin on October, 1991. This capped several years of USAID/GOJ policy dialogue and USAID technical assistance.

Implementation began on October 22, 1991. GOJ continued its vigorous public education efforts and aggressive registration of businesses.

F. Earlier and Broader publication of  
Monetary and Reserve Data

The BOJ publishes a wide array of monetary, reserve, and other economic data. Frequently, however, the publication of this data is as much as three or more months after the fact. More timely and broader publication of certain data in an environment of rapidly changing economic conditions would provide greater transparency for Government policies and actions, signal important changes in policy direction and in selected monetary and reserve aggregates, and inspire greater confidence in the financial and investment communities.

Not applicable -- This is additional conditionality agreed to in 8/92.

FIRST TRANCHE FROM  
FY 1992 ESF

SECOND TRANCHE FROM  
FY 1992 ESF

FIRST TRANCHE FROM  
FY 1993 ESF

SECOND TRANCHE FROM  
FY 1993 ESF

I. Economic Policies for Sustainable Growth  
(Continued)

E. General Consumption Tax

Evaluation of the Revenue Board Project completed. Revenue Board continues aggressive business registration program and eliminates backlog of stock credit audits. Continued strict adherence to rule assessing heavy penalties for non-compliance.

Implementation of GCT continues including serious efforts by Revenue Board to resolve problems, including any identified by the evaluation. Numbers of registered businesses will have increased from 15,000 to 18,000, capturing the universe of those entities subject to the tax. Eligible non-fillers of returns reduced from 26% to 15% of registered firms. Continued assessment of heavy penalties for non-compliance. GOJ effectively resisting attempts reduce or weaken coverage of the program.

F. Earlier and Broader  
publication of Monetary and  
Reserve Data

Agreement by the BOJ to publish monthly in composition and totals for the immediate past month's Net International Reserves and Base Money as soon as technically feasible after the end of the month. Actual publication to begin after the end of the first full month after disbursement of ESF, or when mutually agreed to by BOJ and USAID.

ISSUE

BACKGROUND

FUNDS ALREADY OBLIGATED  
FROM FY 1991 ESF

II. A Better Private Investment Environment

A. Privatization

In order to have a more coherent and effective privatization program for the GOJ, the National Investment Bank of Jamaica has been given the mandate, staff and resources to accelerate and complete the GOJ privatization program.

Privatization process institutionalized in the NIRJ. Cabinet approval of up to 27 government owned assets are given special focus and placed on a fast track for privatization.

B. Employee Stock Option Plans

Jamaica has a thin capital market and insufficient opportunities for small investors. ESOPs benefit small investor/savers, and encourage equity financing. Educational process for Jamaicans on merits of ESOPs is initiated, and development of Government policy and legislation that would facilitate ESOPs.

Action plan developed for ESOP initiative, including procurement of experts in ESOP policies and legislation.

FIRST TRANCHE FROM  
FY 1992 ESF

SECOND TRANCHE FROM  
FY 1992 ESF

FIRST TRANCHE FROM  
FY 1993 ESF

SECOND TRANCHE FROM  
FY 1993 ESF

II. A Better Private Investment Environment  
(Continued)

A. Privatization

Procurement contracts for special expertise, legal services, evaluation, accounting services, surveying, legislation development, and investment packaging are in place. Study on privatization of Sangster Airport underway. Five to ten Government assets valued at no less than J\$150 million sold or transferred to private control. Additional five to ten assets at an estimated value of J\$500 million being advertized or subject of negotiations.

Five to ten assets sold or transferred to private control. Additional five to ten assets being advertized or subject of negotiations. Documentation collection advanced on additional 20 assets, including a major Government owned entity or asset.

Five to ten assets sold or transferred to private control. An additional five to ten assets being advertized or subject of negotiations, including a major Government owned entity or asset. Documentation collection advanced on an additional 20 assets.

Five to ten assets sold or transferred to private control. An additional ten to fifteen assets being advertized or the subject of negotiations, including major Government owned entities or assets.

B. Employee Stock Option Plans

Complete procurement of experts, both foreign and domestic, to facilitate implementation of action plan. Expand educational process through seminars, speeches, and press releases.

ESOP policies and ESOP legislation drafted.

ESOP legislation passed and signed.

ESOP legislation being implemented.

ISSUE

BACK GROUND

FINDS ALREADY OBLIGATED  
FROM FY 1991 ESF

II. A Better Private Investment Environment  
(Continued)

C. Business Practices and Competition

GOJ lacks pro-competition legislation needed to control non-competitive practices and their negative impact on consumers and investors. Competition legislation appropriately tailored to the structure of the Jamaican economy is needed. The Government's objective, supported by AID, are pro-competition policies and legislation ultimately enacted that is compatible with sound economic policy, protects consumers, and promotes private investment and exports.

The GOJ prepares a public document setting out proposed draft pro-competition legislation and circulates it for public comment.

D. Legal and Regulatory Framework for Capital Markets.

Past regulatory policies created distortions in financial markets and imposed constraints on the development of capital and equity markets. The present securities market can be characterized as largely unregulated cartel, prone to insider trading in equities and with a bias against debt instruments. Modernization of the securities market would address these issues, as well as eliminate stamp duties on transactions, months long finalization of sale procedures, expand the types of instruments traded, and open up secondary market trading in bonds, T-Bills, and CDs.

Draft securities market legislation being reviewed by GOJ, to accomplish the following:

- establish Securities Commission, and an appropriate regulatory framework and secretariate;
- establishment of self-regulation in the Stock Exchange;
- equalize treatment of debt and equity instruments with regard to taxes and other charges;
- increase the number of securities brokers; and
- expand secondary market trading in bonds, T-Bills, and CDs.

E. Credit Union Reform

Credit Union legislation governing behaviour prohibited market rates of interest on deposits and loans.

Credit Union reform legislation drafted to allow market rates of interest on deposits and loans.

II. A Better Private Investment Environment (Continued)	<u>FIRST TRANCHE FROM FY 1992 ESF</u>	<u>SECOND TRANCHE FROM FY 1992 ESF</u>	<u>FIRST TRANCHE FROM FY 1993 ESF</u>	<u>SECOND TRANCHE FROM FY 1993 ESF</u>
C. Business Practices and Competition	Draft legislation revised to incorporate public and corporate comments consistent with sound economic policies and growth.	Competition Act introduced in Parliament.	Competition Act is passed and signed, and an appropriate regulatory framework is initiated.	Competition Act is being implemented.
D. Legal and Regulatory Framework for Capital Markets.	Securities Act is submitted to Parliament.	Securities Act is passed and put into effect; along with with corresponding regulations.		
E. Credit Union Reform	Credit Union Reform Act passed and signed.	Revised credit union legislation is implemented, along with any necessary changes in regulations.		