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

JAMAICA

PROJECT PAPER

ECONOMIC SUPPORT FUND
(PAAD)

AMENDMENT NUMBER 2

AID/LAC/P-763
CR - 662

PROJECT NUMBER: 532-0164
GRANT NUMBER : 532-K-606B

UNCLASSIFIED

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 532-0164 532-K-606B	
PAAD		2. COUNTRY Jamaica	
		3. CATEGORY Cash Transfer	
		4. DATE Sept., 1992	
5. TO:	6. DVB CHANGE NO.	7. FROM:	
Mission Director: Robert S. Queener	8. DVB INCREASE	Director, O/PPD: John A. Tennant	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$15,000,000	10. APPROPRIATION - LES 292-35532-KG31 72-112/31037 (270-65-532-00-50-21)	TO BE TAKEN FROM: Economic Support Funds	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD FY 1992/93	14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED			

N/A

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S. \$15,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: \$15,000,000	Other:

18. SUMMARY DESCRIPTION
 The purpose of this program is to provide balance of payments assistance in support of economic reforms to promote broad based economic growth led by the private sector. Funds will be provided in one tranche as a cash transfer in recognition of acceptable progress by the Government of Jamaica on a macroeconomic reform program contained in a matrix of conditions. The transfer is expected to occur in October, 1992.

Program funds will be deposited into a separate non-commingled ESF account in the U.S. from which payments or reimbursements for eligible uses of the dollars will be made. The dollars, plus any accrued interest, will be used for eligible productive imports from the U.S. for the private sector in Jamaica. USAID will negotiate disbursement and accounting procedures in accordance with A.I.D. guidelines prior to disbursements from the separate account.

An equivalent amount of local currency will be deposited by the Government of Jamaica in an interest bearing account. This local currency will be used for an operating expense trust fund, and, consistent with AID's objectives in Jamaica, for counterpart contributions to AID and other donor projects and GOJ projects, as appropriate, for general or sectoral budget support, and for related audit services.

19. CLEARANCES	DATE	20. ACTION
DDIR: MZak <i>ZF</i>	9/24/92	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
RLA: EDragon <i>ERD</i>	9/24/92	<i>Robert S. Queener</i> <i>Sept 24, 1992</i> AUTHORIZED SIGNATURE DATE Robert S. Queener Mission Director, USAID/Jamaica TITLE
CONT: MLewis <i>ML</i>	9/24/92	
ECON: CMohan <i>CM</i>	9/24/92	

CLASSIFICATION:

USAID/JAMAICA

**PROGRAM ASSISTANCE APPROVAL DOCUMENT
(PAAD)**

AMENDMENT NO. 2

POLICY REFORM IN SUPPORT

OF

PRIVATE INVESTMENT

SEPTEMBER, 1992

**PROJECT NO. 532-0164
GRANT NO. 532-K-606B**

September 24, 1992

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PROGRAM ASSISTANCE APPROVAL DOCUMENT
POLICY REFORM IN SUPPORT OF PRIVATE INVESTMENT
USAID/JAMAICA FY 1991-1993

I. INTRODUCTION AND SUMMARY

This amendment to the FY 91 Policy Reform in Support of Private Investment Program (PRISPI) will support a specific agenda of policy reform during FY 92-93. The agenda, which is in a Program Matrix for Policy Reform contained in Annex I and is described further in Section III below, 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. The Government's letter of request for the program as amended is contained in Annex II.

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. 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. 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.

II. ECONOMIC REVIEW AND OUTLOOK

A. Current Assessment of the Economy

During 1991 and the first half of 1992 the Jamaican economy went through rapid and wrenching changes. Real GDP growth, while positive, was minimal at 0.2 percent. Calendar year inflation rose dramatically to over 80 percent in concert with a major devaluation of the currency, driven in part by speculation against the Jamaican dollar. Interest rates too went to unprecedented heights at over 50 percent. Finally, Jamaica fell out of compliance with its IMF Stand-by Agreement during the last two quarters of 1991. At the same time the Government of Jamaica (GOJ) carried out major structural and policy changes. The GOJ fully liberalized the foreign exchange regime. It enacted and implemented the General Consumption Tax (despite the name, a value added tax). And it put in place a tight fiscal budget for the 1992-93 Fiscal Year, which provides for negative real growth in expenditures and a twenty percent reduction in government employment. The exchange rate has stabilized at 22.4 to the U.S. dollar, and inflation plummeted to an

annualized rate of 25 percent during the May-July quarter of 1992. However there are some concerns that the lower inflation rates may not be able to be sustained, particularly in view of the GOJ's policy of promoting very rapid and deep declines in interest rates. Real growth in GDP is projected at 3 percent, but realization of that target is uncertain. Finally, the GOJ succeeded in reformulating its IMF Standby Agreement, met the March 1992 test and, also met the June 1992 test. In that context, along with strengthened policy measures and stabilizing economic trends, the GOJ held initial discussions with the IMF on a three-year Extended Funding Facility in late August - early September. While there are reasons to be guarded about the economic outlook, there are also reasons for optimism. Certainly, the policy environment is much improved over that of a year or two years ago.

B. Balance of Payments

Between 1990/91 and the end of 1991/92 the overall balance of payments deteriorated by US\$85 million from a surplus of US\$110 million to a surplus of US\$25 million. The current account balance improved US\$84 million from a deficit of US\$215 million to a deficit of US\$130 million. There was an increase in net international reserves of US\$25 million, and all official arrears were cleared. The IMF's Article IV Consultation memo of March, 1992, projects a further improvement in the current account balance between 1991/92 and 1992/93, but a worsening of the overall balance. Hence, the current account deficit is projected to decline from US\$130 million to US\$55 million, while the overall balance is projected to move from US\$25 million to a minus US\$28 million. The projected US\$28 million deficit in the overall balance of payments, plus the projected US\$60 million increase in net international reserves implies a financing gap of US\$88 million to be financed by bilateral donors, further debt service rescheduling, and/or debt reduction.

III. THE POLICY SUPPORT PROGRAM

A. Rationale

The PRSPI program draws together a number of elements that are aimed at an overall, aggregate impact. The program's objective is to continue the ongoing liberalization of the Jamaican economy, as well as broaden and deepen that process, and ensure its sustainability. Specifically, this requires appropriate macro-economic and sectoral policies, and institutional changes, to open up the economy and enhance real growth. It is linked to continued privatization of Government assets to increase productive efficiency and reduce the deficit. Finally, it supports legislation that will increase competition and further open up financial and capital markets, improving the environment for private investment and export development.

The Jamaican economy has recorded positive real growth every year since 1986. This trend has been accompanied by a series of far reaching and concrete liberalization efforts. Even so, additional reforms are needed to sustain broad based private sector economic growth.

Jamaica has agreed to a wide range of reforms with the major multi-lateral lenders. USAID/Jamaica's policy dialogue under the PRSIPI will reinforce and complement those reforms. Ultimately, however, the broadening and deepening of the liberalization process, through specific concrete actions, is aimed at sustaining positive real growth and creating a better investment environment. These changes will enable Jamaica to develop the supply response to take advantage of its decontrolled foreign exchange regime, and create a more market oriented, outward looking economy.

B. Policy Support Strategy

With the initial US\$5 million disbursement in September, 1991, and a second disbursement of US\$7 million in January 1992, a total of US\$12 million in FY 91 funds has been committed to the program. The basis for disbursement for the first \$5 million was the Government's sound economic program reflected in an IMF Stand-by Agreement, signing of the IDB investment sector loan, the U.S. Mission's (Embassy/A.I.D.) own assessment, and the Government's commitment to full decontrol of the foreign exchange regime. On September 25, 1991, the Government decontrolled the foreign exchange regime, including free movement of capital for both citizens and non-citizens. The \$7 million disbursement in January 1992 was based on full liberalization of the foreign exchange system and commitment to companion tight monetary and fiscal policies. This amendment deals with policy objectives during the latter half of FY 92 and during FY 93.

The policy conditions in the matrix are structured to allow for two tranches in each of FY 1992 and FY 1993. Provisional planning figures were set at US\$7.5 million in each tranche, but these figures are subject to the timing of appropriations and the availability of funds. In FY 92, due to the late availability of ESF funds, the entire \$15 million will be disbursed in one tranche.

The program incorporates a basket of policy measures which will facilitate progress toward the overall goals sought in the policy dialogue, and against which each tranche will be justified. USAID will not require 100 percent compliance on all conditions. Rather, out of the basket of measures, USAID will make a judgment that the preponderance of the Government's performance against the objectives warrants disbursement. USAID does not intend this to be an open-ended, laissez-faire process. Progress on key reforms will be necessary for release of funds. Thus, the non-negotiable "core" conditions are: continuation of the liberalized foreign exchange regime, backed up by appropriate fiscal and monetary policies; strengthening of the fiscal policy process; and meeting privatization targets. Further, adequate progress will be

required on any three of the six remaining conditions, plus the condition dealing with adequate progress on the publication of data on the composition of net international reserves and base money, which would be determined at the time of each tranche. Meeting these and the non-negotiable conditions would establish the critical mass of performance to justify release of funds. Prior to each tranche and after appropriate discussion with the Government, USAID will submit its analysis and overall assessment of performance to Washington for concurrence on the judgment regarding disbursement or withholding.

C. Detailed Discussion of Policy Conditions

It was stated earlier that the Government has agreed to a far-ranging policy agenda with the multi-lateral lenders. It is important to note that significant portions of that agenda have their origins in discussions between USAID/Jamaica and the Government going back several years.

The Mission supports the Government's agenda with the multi-lateral lenders. With so much of the policy spectrum now covered by the multi-lateral lenders, USAID's policy agenda for FY 1991-93 is aimed at selected areas where USAID has established its own track-record and experience, and where we have a manageable interest. Where overlap with other donor/lender programs remains, it is in areas where USAID has an established history of involvement, where the issue remains central to our overall program objectives, and where we can reinforce or complement the Government's agreed agenda with the lenders. The specific rationale for each policy objective in the matrix is discussed below.

1. Liberalization of the Foreign Exchange Regime **(Core Condition)**

Before the decontrol of the foreign exchange regime in September, 1991, capital movements and repatriation of profits were constrained, foreign exchange was in short supply in the formal Inter-Bank system, and the Jamaican dollar was overpriced. A parallel market existed at a 60 to 70 percent premium, and was estimated to be of equal volume to the formal market. The desired outcome is the continuation of decontrol, with changes in the Foreign Exchange Act and other measures to bolster confidence in the performance of a fully-decontrolled system. With the resulting devaluation and shift in relative prices in favor of tradeable goods and services, there is already heightened interest in new private investment and retooling for export and tourism related activities. Domestic pricing of imported goods will more closely approximate world prices, and supply and demand of foreign exchange will set the exchange rate. Continued decontrol as a basic policy objective of the Jamaica Government is the necessary step to solidify the economy's shift to an outward-looking, export orientation.

2. Monetary and Fiscal Policies (Core Condition)

Appropriate macro-economic policies are critical to the success of the decontrol, and for fostering a healthy investment environment. Judicious management of monetary and fiscal aggregates are necessary to minimize crowding out of private investment, for stable interest rates at moderate, positive real levels, and to keep the domestic inflation rate from negating the positive effects of decontrol and devaluation. The desired outcome is a macro-economic policy environment that supports these objectives, and is consistent with the Government's agreement with the IMF. Macro-economic policy for Jamaica's FY 92-93 is in the process of being worked out within the Government and with the IMF, but tentatively includes a target of 0.5 percent of GDP for the overall public sector deficit, and an inflation rate below 20 percent. USAID monitors the Government's macro-economic policies closely, and with the other donor/lenders will be in close, regular consultation with the Government.

3. Bank of Jamaica Losses (Secondary Condition)

The Bank of Jamaica (BOJ) losses arise because of the rising interest cost of its domestic and foreign debt, and because of its holdings of non-earning assets. The long-term depreciation of the Jamaican dollar has led to a substantial increase in BOJ losses due to the increase in the Jamaican dollar cost of servicing the BOJ's foreign liabilities. In addition, since 1985 the Bank has used its own certificates of deposit, bearing market rates of interest, to carry out open-market operations, and received non-interest bearing government securities to help cover its losses.

In addition to confusing institutional roles, this practice aggravates problems of budgetary control and transparency, and debt management. The Government is restructuring the financial assets of the BOJ through an issue of marketable securities to the Bank in an amount equal to its annual loss for 1991-92. To enhance transparency, the annual loss of the BOJ and the estimated interest payments on the related government securities will be included in the government's budget. In addition, the Government is developing a timetable and action plan to eliminate the rest of the BOJ losses. The Mission believes it is important for the Government to sort out the policy-making and implementing roles of its monetary and fiscal institutions. In particular, in the context of foreign exchange decontrol, it is important for the BOJ to focus on its foreign exchange and monetary roles, and regulation of an increasingly liberalized financial sector, and for the Ministry of Finance's management of the fiscal deficit to take into account the BOJ's losses due to the depreciation of the Jamaican dollar. Elimination of BOJ losses is a critical first step in this re-focussing and separation of monetary and fiscal roles. USAID's objective here is to emphasize the importance of these actions and to assure that they are accomplished.

4. Strengthening Fiscal Policy Process **(Core Condition)**

The corollary to eliminating BOJ losses, and the implications of that action, is a more clearly defined fiscal policy process less driven by purely monetary and foreign exchange considerations. This does not mean removing appropriate and necessary constraints on fiscal policy -- it has already been noted that prudent fiscal policy management is critical to the success of the Government's reform agenda. It does mean that it may be necessary to strengthen the MOF's fiscal analysis and fiscal policy formulation capabilities. To this end, as part of this ESF policy dialogue, the Government and the Mission initiated a study of the fiscal analysis/policy formulation process to determine if, and/or where realignment of functions and strengthening may be necessary. This study was completed in March, 1992. The study recommended, and the Government agreed, that a Fiscal Policy Management Unit should be established in the MOF as quickly as possible. The unit will serve as a secretariate to the Financial Secretary, and will have analytic, policy development, and management responsibilities. Staffing will be well-qualified Jamaicans, and, initially, some senior ex-patriates. A prime objective is a Ministry of Finance that is able to establish analytically based fiscal targets, reflecting those targets in the budget, and effectively managing their implementation. A further objective is an improved capability to manage the domestic debt, to project budget and macro-economic variables, and monitor their performance.

5. General Consumption Tax **(Secondary Condition)**

USAID/Jamaica has supported tax reform in Jamaica for many years. These efforts culminated in the implementation of the General Consumption Tax (GCT) in October, 1991. The GCT replaces eight different taxes with one, thereby greatly improving tax administration. It is essentially a ten percent value added tax that shifts the tax burden towards consumption and away from production. Over time this will favor investment. As with the start-up of any new tax, start-up of the GCT had its problems. These included incomplete coverage due to avoidance and unregistered firms, some public confusion as to what is taxed and what is not, a greatly underestimated audit burden to review claims for credit against business stocks held at the time of implementation, and some public discussion about lessening the burden of the tax through loop-holes and exemptions. USAID's objective is to see that implementation is complete, that the program is not watered down, and that recommendations by USAID/Jamaica's project evaluation are addressed.

6. Privatization (Core Condition)

For the last six years USAID has provided financial and consultant support for the Government's privatization program. It is widely acknowledged that Jamaica has one of the most successful privatization programs in the developing world. This has brought greater efficiency to numerous previously government-run enterprises, lessened Government competition with the private sector, increased revenues from the sale of Government assets, and reduced the drain on the Government's budget. More recently the Government has given the National Investment Bank of Jamaica the mandate, staff and resources to accelerate and intensify the Government's privatization program. Further, the Cabinet has approved a select group of 27 Government-owned assets which will be given special focus and placed on a fast-track for privatization. USAID/Jamaica is underwriting contracts for special expertise, such as legal and accounting services, and has supported a study of the privatization of Sangster airport. USAID is working with the Government to advance the pace of privatization, and divest more difficult assets such as major utilities and/or transportation entities. The goal is to substantially complete the privatization program between now and the end of FY 1994, during which a minimum of 20 assets will have been privatized.

7. Employee Stock Option Plans (Secondary Condition)

Jamaica has a thin capital market and insufficient opportunities for small investors. Among other things, this inhibits the broader ownership and greater corporate accountability inherent in the privatization process. Employee Stock Option Plans (ESOPs) are a tested way of benefiting small investor/savers, and of encouraging equity financing. The Mission has supported a study of the potential for ESOPs in Jamaica, and the development of an action plan and draft legislation allowing for the formation and regulation of ESOPs. The expected outcome is the enactment and implementation of ESOP legislation. This will give employees a greater stake in the efficiency and profitability of their firms, provide an additional savings outlet with potentially much better returns than those available from traditional savings instruments, broaden participation in the equity market, and strengthen the privatization process.

8. Business Practices and Competition (Secondary Condition)

Jamaica lacks appropriate legislation necessary to protect consumers and investors, and to curb anti-competition business practices, such as interlocking directorates and predatory pricing. These and other anti-competitive practices constrain the success of the privatization process and the business efficiency and consumer welfare that are attendant on vigorous competition. The Government's objective is to enact pro-competition policies and legislation that are compatible with sound economic policy, protect consumers, and promote private investment and exports. With USAID financed technical assistance in the early stages, the Government has drafted legislation it believes is tailored to the structure of the Jamaican economy, and circulated it for public and corporate comment. Important parts of this draft legislation are politically charged and present an element of risk to the Government. Nonetheless, USAID believes that investor and consumer protection, and competitive business practices are necessary for an improved investment environment that will directly affect the privatization process and continued opening up of the economy. Thus, the desired objective is the enactment and implementation of the Government's draft legislation.

9. Legal and Regulatory Framework for Capital Markets (Secondary Condition)

Jamaica's present securities market can be characterized as a largely unregulated, closed group, prone to insider trading. For the most part, the desired functions of equity and debt markets are not being well-served. Modernization of the securities market would address these issues as well as open up secondary market trading in debt instruments. Draft legislation has been developed, incorporating an appropriate regulatory framework, equalization of the tax treatment of debt and equity instruments, increase in the number of securities brokers, and expansion of secondary markets. The Mission believes the proposed legislation and regulatory framework would result in broader, more efficient, responsive, and stable financial markets that will materially improve the overall investment environment. Thus, USAID desired policy outcome is the enactment and implementation of the draft securities market legislation.

10. Credit Union Reform (Secondary Condition)

Another inconsistency and inefficiency in the Jamaican financial market directly affected a large number of small savers and borrowers. Credit unions were prohibited by statute from paying market rates of interest and faced ceilings on lending rates. Such practices encourage consumption over saving on the one hand, and subsidize borrowing on the other, raising the potential for long-term decapitalization of this segment of the financial market. USAID believes credit unions are an important segment of the financial market. For many small savers and borrowers it is frequently the only part of the market accessible to them. Further, it is believed that with market interest rates, a larger supply of savings would be forthcoming, making possible a larger supply of credit, particularly to small borrowers. USAID's policy dialogue encouraged enactment and implementation of the Government's credit union reform legislation allowing market rates of interest on savings as well as lending. USAID's interest does not stop with passage however, and it is important to continue a policy dialogue on this issue until the reform Act is implemented and any necessary regulatory changes are put in place.

11. Publication of Monetary and Reserve Data
(Required Secondary Condition)

To assure that there is transparency and in the interest of investor confidence it is important that the current status of net international reserves and base money be available to the public in a timely way each month. Although the Government does publish these data, the publication often lags the data by 2-3 months. The desired objective is publication of these data each month as soon as technically feasible.

IV. STATUS OF CONDITIONS IN SEPTEMBER, 1992

USAID considers that very substantial progress during the latter half of FY 92 has been made on the policy agenda as described in the Policy Matrix. Although we have concerns about current monetary policy as discussed below, the GOJ has made satisfactory or more-than-satisfactory progress on the four essential conditions and GOJ progress on most of the other conditions has also been satisfactory. Per earlier discussions with AID/W, satisfactory progress on any three of the other conditions (plus the recently-added condition on publication of data), in addition to the four core conditions, is adequate to meet overall conditionality requirements for FY 92 policy progress. Because of the late availability of ESF this fiscal year, we have combined requirements for both the first and second tranches shown on the matrix for FY 1992 totalling \$15 million.

We have been concerned with the Government's interest rate policy in view of recent substantial decline in interest rates and high liquidity that may help refuel inflation rates. We also have not yet seen a detailed plan for clearing Bank of Jamaica losses. However, recent discussions with the GOJ economic coordinating committee for the program have led USAID to conclude that the Government is adequately working to mop up liquidity and clear BOJ losses through a variety of instruments. A plan is also being developed with the IMF to clear Bank of Jamaica losses. These points are more fully discussed below.

There are of course minor shortcomings in progress on some other conditions. For example, we had intended that the Fiscal Policy Management Unit would be operational, but this requires resolving donor co-financing issues before proceeding further. We are working with the Government on this. On the General Consumption Tax, noncompliance with the GCT has been reduced, but not as quickly as had been hoped, and additional registrations have lagged. The Revenue Board is reviewing the situation, and USAID will continue to pursue this issue with the Board.

A brief discussion on the status of each policy objective follows:

A. Primary Non-negotiable Conditions

1. Liberalization of the Foreign Exchange Regime

The Government has rescinded the Foreign Exchange Control Act and dismantled the Foreign Exchange Control Division of the Bank of Jamaica. The exchange rate has stabilized, and the system appears to be meeting market requirements. There are substantial hard-currency flows into Jamaican banks, and the black market has not reappeared.

Summary Assessment: Satisfactory in all respects.

2. Monetary and Fiscal Policy

Monetary and fiscal policy have been tightened considerably in the last eight months. Most of the policy changes were aimed at shutting off inflationary pressures and meeting IMF Stand-by and expected EFF conditions. The Government's FY 1992-93 budget projects an overall public sector surplus of 0.7 percent of GDP, and a 20 percent reduction in the Civil Service. Through May, the Bank of Jamaica carried out an actively contractionary monetary policy, at least in terms of CD sales. The monthly change in the Consumer

Price Index (CPI) declined from 7.7 percent in February 1992, to 2.9 percent in May, 0.7 percent in June, and 2.5 percent in July. As a corollary, the depreciation of the Jamaican dollar reversed itself in late April. The foreign exchange value of the currency has since appreciated by about 20 percent and stabilized.

Overall, this performance on fiscal and monetary policy would have been praiseworthy. Our concern lies with recent issues of Government securities which have resulted in reduction of interest rates on these securities from 52 percent in May 1992 to 25-35 percent in July-August. Given the fragile nature of both lower rates of inflation and exchange-rate stability, and an environment of still increasing liquidity, the Mission believes that such a substantial reduction in interest rates is premature.

The issue is admittedly complex and tied into GOJ-IMF discussions on an EFF. The GOJ has made a decision to phase-out BOJ issuance of Certificates of Deposit as part of its policy to contain and eventually eliminate BOJ losses. It also plans to reduce issuance of short-term T-Bills in favor of longer maturity local registered stock (a recent offering of LRS calls for 5-year maturity, initial interest rate of 37%, and variable rates thereafter set at 2 percent above average T-Bill rates). The first issuance of LRS had a disadvantage with respect to CD's and T-Bills, however, in that it cannot be used by commercial banks to meet a portion of their liquid assets reserve requirement stipulated by the BOJ. But a more recent issuance of two year maturity LRS does permit it to be used as reserves. The GOJ has reaffirmed its commitment to containing inflation and will examine higher reserve requirements and other forms of government securities as alternatives to CD's and T-Bills. Further, they contend that even the interest rates recently obtained from CD and T-Bill issues are net positive with respect to an annualized inflation rate based on experience of the past three months. Even acknowledging the GOJ's arguments, there is still cause for concern that the still high liquidity and "follow-the-leader" commercial bank reduction of interest rates will risk renewed inflation and work counter to exchange rate stability. USAID raised these concerns in a recent meeting with the GOJ economic team. We were reassured that the Government's policy is to mop up liquidity as rapidly as feasible and to maintain price and exchange rate stability.

Summary Assessment: Tighter GOJ fiscal policies, including a projected central government surplus for FY92-93, and exchange rate stability have contributed to a hopeful reduction in the CPI for the May-July quarter. Overall monetary policy has probably been satisfactory given recent economic trends, but this is a close judgement call given recent interest rate policy. USAID will continue to watch this issue closely.

3. Strengthening Fiscal Policy Process

The USAID-financed Study of Fiscal Policy in Jamaica was submitted to the GOJ on May 8, 1992. The consultants' appraisal and recommendations for establishing a Fiscal Policy Management Unit (FPMU) within the Ministry of Finance were endorsed by the GOJ. Minister of Finance Hugh Small is especially eager that implementation of the Consultants' plan be put on a fast track. He obtained Cabinet authorization to create the FPMU, and GOJ counterpart personnel for the unit have already been identified. On July 31, 1992, the USAID consultant team prepared an action plan which again resulted in broad agreement. However, donor co-financing (USAID and UNDP) foreseen for the FPMU has not yet materialized. USAID will seek one more GOJ donor coordination meeting, and, if agreement cannot be reached on co-financing, will proceed with a USAID GOJ financing arrangement. Resources are expected to be taken from USAID's Export Development and Investment Promotion Project from the FPMU initially. We will also consider using ESF resources for FY 93 for costs of FPMU assistance.

Clearly, the FPMU is not yet functioning in the MOF, as specified in the second-tranche FY 92 conditionality. However, since the only constraint has been mobilizing the necessary donor resources -- not GOJ commitment to launch this activity -- we consider GOJ "performance" acceptable to date.

Summary Assessment: Satisfactory, given the circumstances.

4. Privatization

Over the eleven month period to September 1992, the Government of Jamaica has transferred ten companies/properties to private control either by sale (7) or lease (3). Proceeds from those privatizations total J\$619 million with the most significant divestments being sale of the GOJ's remaining shares in the National Commercial Bank (sale valued at J\$526 million) and sale of the West Indies Glass Company. While completed actions are at the low end of the established benchmark conditions ("ten to twenty assets sold or transferred to private control"), four additional privatization actions are almost certain to be completed in the next 30-60 days. With respect to other FY 92 performance benchmarks for privatization, 16 additional properties have been advertised or are the subject of negotiations as against USAID's requirement of ten to twenty, and the GOJ has substantially advanced documentation collection on 23 additional Government companies/properties including such major assets as Air Jamaica, the Jamaica Railway Corporation, the Petrojam Refinery, and

two of the four sugar estates still under Government ownership. The World Bank is providing financial support for technical/financial studies on these major companies and plans to include time-phased conditionality on their privatization in a Private Sector Adjustment Sector Loan scheduled for late 1992. A TDP-financed design study on a new airport terminal at Montego Bay and a USAID-financed study on privatization options for the airport are under review by a GOJ cabinet subcommittee. We anticipate that some hybrid, public private-sector financing arrangement will emerge from these reviews.

Overall, we conclude that the GOJ is still firmly committed to privatization, and that its performance over the past year meets the PRISPI conditionality, although just barely on the number of completed actions. At the same time, we perceive a slackening of the initial pace, in part explained by changes in the Chairman and some members of the Board of the National Investment Bank of Jamaica (NIBJ), which prepares most privatization actions for Cabinet decision. The GOJ has also been slow to act on major transport and public utility divestments, but we expect accelerated progress with the reinforcement of World Bank and IMF interest. We will continue to press for an intensified program, through both our ESF policy dialogue and direct technical assistance to the NIBJ.

Summary Assessment: Satisfactory to date, although we are concerned about the slow-down in completion of privatization action in relation to FY 93 progress benchmarks.

B. Secondary Conditions

1. Bank of Jamaica Losses

The Government has taken steps in its plan to eliminate Bank of Jamaica losses. It has begun to shift its open-market sales from BOJ CDs to T-bills, issued an interest bearing instrument to the BOJ for FY 1991-92 losses, raised the debt limit for T-bills, and budgeted interest payments to the BOJ. Because of the size of the BOJ losses -- over 6.0 percent of GDP -- this process will proceed in stages under the watchful eye of the IMF. In May 1992, the IMF and BOJ collaborated on an assessment of issues/options leading to further elimination of BOJ losses. The Matrix also called for a timetable and action plan for final elimination of BOJ losses as a second-tranche FY92 action. Such a plan is currently being developed in negotiations with the IMF. The general outline of the plan is included in the GOJ letter of request for the ESF. It stipulates that all BOJ losses will be cleared by the end of Jamaican Fiscal Year 94/95 through a combination of cash transfers from MOF to BOJ, retirement of existing certificates of Deposit and the issuance of new longer term instruments with on-budget interest payments.

This condition as well as the matrix condition to strengthen the fiscal policy process, is supported by, and contributes to, GOJ efforts to increase the independence of the Bank of Jamaica as the Government moves to separate fiscal and monetary policy responsibilities between the Ministry of Finance and Bank of Jamaica. In this effort, USAID has emphasized strengthening the fiscal policy function of the Ministry of Finance and helping to eliminate BOJ losses. However, other donors, particularly the Germans and the Inter-American Development Bank, also plan to more directly support efforts to increase the autonomy of the BOJ. A recent consultancy from Germany's Bundsbank, one of the most independent central banks in the World, provided the Government with an outline of steps that could be taken to improve BOJ independence. Germany stands ready to follow up on additional assistance in this regard as requested by the GOJ. The IDB plans consultancy assistance over the next year to the BOJ under its program of assistance also. USAID will of course maintain close liaison with the German and IDB assistance efforts in this regard.

Summary Assessment: First tranche FY92 conditions met; second-tranche conditions (timetable and action plan) dependent on results of GOJ-IMF discussions on EFF.

2. Publication of Monetary and Reserve Data

To increase transparency and increase investor awareness and confidence, the Government has agreed to publish in a timely way monthly data on the totals and composition of Net International Reserves and Base Money. This condition is an addition to those discussed with AID/W in March, 1992.

Summary Assessment: Satisfactory action.

3. General Consumption Tax

Implementation of the GCT has gone relatively well, and receipts have run ahead of early expectations. The target for November-March 1992 was for collections of J\$1.35 billion while actual collections were J\$1.5 billion. From April-July 1992 the target was J\$1.64 billion and actual receipts were J\$1.7 billion. A separate Magistrate's Court was set up to handle contested tax cases, and noncompliance by large taxpayers (who make up over 90 percent of the tax base) has been reduced by 15 percent or 3 percentage points from 20 percent to 17 percent. However, for small businesses whose income doesn't exceed J\$1.0 million (less than US\$50,000), noncompliance is substantially higher, perhaps 40 percent. It has been very slow and time consuming to review records for the many small businesses because of their poor documentation, scattered locations, and small revenue potential for each one. Also on the negative side, the registration of new (mostly small) businesses has proceeded slowly. The target was to increase registered businesses (taxpayers) from 15,000 to 18,000. Currently, there are 15,502 registered taxpaying businesses on the tax rolls. Progress in registering businesses is slow because there must be evidence that sales volume exceeds a minimum threshold of J\$144,000. This expansion of the tax net is a time-consuming exercise that is still underway. To accelerate the process, the Government is considering higher penalties to discourage false claims and noncompliance, and we are supporting these efforts. The Revenue Board now projects it will meet the 18,000 target by June of 1993.

The Government is pursuing the key recommendations of the Revenue Board Project's final evaluation. Proposals to continue training efforts begun in the Revenue Board Project are being pursued, and twenty-five more persons have been selected to begin revenue training in October. As recommended, new property tax rates are being introduced on a phased basis to be completed in April, 1993. Income taxes are now being assessed on gratuities in the hotel sector and other income tax recommendations are being closely analyzed for possible implementation. In general, the Government has taken the project evaluation quite seriously, and has begun implementation on more than half of the recommendations.

Summary Assessment: First-tranche FY92 conditions met; in relation to second-tranche conditions, reduction of noncompliance by registered businesses has been slower than expected for small businesses, and progress on increasing registrations is below target.

4. Employee Stock Option Plans

Legislation to create Employee Stock Option Plans has been drafted and is being reviewed by the Government and the private sector. It is expected to be passed by the Parliament by the end of September, and enacted in October. The legislation conforms to the program objectives of promoting broader employee ownership of companies and strengthening the privatization process. It provides tax incentives to employees and employers, and to banks for loans to encourage ESOPs.

Summary Assessment: Satisfactory.

5. Business Practices and Competition

The Fair Competition Act has been submitted to Parliament and will be voted on in September, 1992. Enactment then would be ahead of the schedule anticipated by the Government and set forth in the policy matrix. The Government has already begun to establish a Fair Trade Commission to implement the provisions of the Act.

Summary Assessment: Satisfactory.

6. Legal and Regulatory Framework

The Securities Act has been submitted to Parliament but has been returned to the Chief Parliamentary Counsel for additional work. It should be returned to the select committee in November and may be passed shortly thereafter. The prognosis for passage is good with no major opposition expected.

Summary Assessment:

Second tranche condition not met.

7. Credit Union Reform

The Credit Union Reform Act was passed by Parliament ahead of schedule, and is currently being implemented by the Commissioner for Cooperatives and the Credit Unions.

A number of credit unions have already substantially increased loan interest rates that were previously capped at 12 percent to as high as 24 percent. Deposits are responding accordingly, as savings interest rates have increased to within 3-4 percentage points of loan interest rates. In the first quarter of the liberalization, deposits grew by an annualized average of 25 percent. We will continue to monitor the results of this far reaching legislation.

Summary Assessment: Satisfactory

V. PROGRAM IMPLEMENTATION

A. U.S. Dollars

Cash transfer dollars under this amendment will continue to be placed in a special interest-bearing account, and will be used for eligible productive imports from the U.S. the private sector in Jamaica. We have been reviewing the results of the import support program to date, and will be negotiating refinements in the mechanisms already established before releasing the \$15 million. We expect this to include a proposal to make the resources available to commercial banks. Until final details have been agreed, the dollar resources will be maintained in the special interest bearing account.

PRISPI currently includes two U.S. dollar disbursement mechanisms. The mechanism presently in place for the disbursement of the initial US\$5.0 million provides for the U.S. dollars to be deposited into a special account in New York which is operated by the Bank of Jamaica. Jamaican importers, in response to a newspaper advertisement, apply to the Export-Import Bank (EXIM Bank) of Jamaica for foreign exchange. Selection is based upon specific guidelines agreed upon between the EXIM Bank and USAID. Upon submission of the relevant documentation, EXIM Bank draws on the special account to finance the import transaction. Seventy percent of the funds have been committed to date, and 40 percent have been disbursed to almost forty U.S. suppliers. While we had hoped to have all the funds disbursed by now, we underestimated the effects on this program of the recent foreign exchange liberalization. With foreign exchange now freely available from commercial banks and no restrictions on foreign exchange holdings, this program has become less attractive because of documentation requirements and procurement restrictions. We have been working to further streamline the program and have increased the transaction limit as well as increased the flexibility in the collateral requirement. These changes, which are designed to make the program more attractive to applicants, were agreed upon with the EXIM Bank, and we will continue to work together to improve performance.

The mechanism which is being applied under the second tranche of US\$7 million is being administered by EXIM Bank through the Export Development Fund (EDF). The fund was originally started by the World Bank, and it provides hard-currency loans to the productive sector for imports necessary for export production. Loans must be repaid in hard currency. Disbursements under this program to date of \$1.4 million have also been disappointingly slow due in part to initiatives by several Jamaican commercial banks over the past few months to offer foreign exchange loans at interest rates which are lower than EDF loans. To meet the loan-servicing needs of the IBRD loan, the EDF lends at a rate of 14 percent compared with 9 percent from some other banks for trade finance. We are currently considering options for shifting remaining funds under the EDF to a more streamlined mechanism such as the refined mechanism being put in place for the initial \$5 million tranche.

1. U.S. Dollar Reporting:

Under the US\$5.0 and US\$7.0 million tranches, the Export-Import Bank of Jamaica (EXIM Bank) provides USAID with monthly reports of disbursements as stipulated in Program Implementation Letters. The Bank of Jamaica (BOJ) is required to provide USAID with quarterly reports indicating all deposits, withdrawals, interest accumulations and the balance of the account at the end of each quarter. These reports will be continued under the new increment of US\$15.0 million.

B. Local Currency:

1. Deposits of Local Currency

Local currency will be generated by each import transaction utilizing funds from the special account under the program. However, to assure local currency is available as early as possible after the ESF dollars are transferred to the special account, the Government will deposit an equivalent amount of local currency to a special non-commingled interest-bearing J\$ account at the Bank of Jamaica within two weeks of the dollar transfer. The Government, through the EXIM bank, will maintain careful accounting of actual J\$ generations from the import transactions and the initial deposit of J\$ will be adjusted depending on the final actual J\$ generations from imports. Exchange rates will be governed by the published weighted average selling rate for US dollars as of the date of approval of the import transaction.

2. Local Currency Use:

Local currency programming will continue to utilize procedures long established under the ESF program in Jamaica. We will give preference to the counterpart requirements of AID-financed projects and MFI-financed projects which have an essential complementary relationship to the AID program strategy. Beyond these requirements, we will reserve the flexibility to program any additional local currencies for general or sectoral budget support. USAID and the GOJ will jointly program the local currency equivalent of the dollars disbursed under this program for priority development activities in four major areas: 1) Existing projects/programs funded by USAID; 2) Projects/Programs from other donors which need reinforcement; 3) New activities which strongly contribute to AID's policy and objectives, and 4) Trust funds to support AID operations in Jamaica. Local currency made available under the ESF Grant Agreement for categories 1-3 above will support our existing projects and other programs in areas most relevant to USAID's development priorities as defined in the most current Action Plan document. These areas currently include export promotion, privatization, private sector trade and investment, activities which promote environmental protection, and support for programs that contribute to smaller, healthy families.

Funds will be released from the interest bearing special account into the GOJ consolidated fund to reimburse expenditures made for approved activities. As noted above, ESF associated local currency is being programmed primarily for projects managed or supported by AID or the multilateral donors, and that all activities funded under the first tranche of this program are exclusively USAID projects (or cofinanced activities). This will assure that the funds are controlled and accounted for using systems already being applied by AID or familiar and acceptable to AID, and will minimize additional workload on the Mission while helping to assure maximum development impact. Any special projects outside of this universe funded under future tranches will be closely analyzed to assure accountability requirements are met. Funding for trust fund requirements will depend on trust fund ceilings established by AID/W and on the needs of the Mission.

Programming of the local currency generated under the US\$5 million was jointly agreed upon, and approximately 35 percent of the total amount generated and programmed was liquidated in the last quarter of JFY 91/92. The remaining 65 percent along with the generations from the US\$7 million should be liquidated in JFY 92/93, which ends in March, 1993. The Mission is now in the final stage of its negotiations with the Government of Jamaica regarding the programming of the local currency generated from the US\$7 million.

C. Implementing Arrangements

The following GOJ agencies have important roles in program implementation: the Bank of Jamaica (BOJ), Ministry of Finance, Planning and Development (MOF) and the Planning Institute of Jamaica (PIOJ). To help assure close coordination among the key implementing organizations, a coordinating committee will be established under this program. This committee is expected to comprise the Director of USAID, the MOF Financial Secretary, the Governor of the Central Bank and the Director General of the PIOJ or their representatives. The committee will convene as needed but is expected to meet at least once every six months to review the status of the existing program and plans for future ESF tranches. Close communication will be maintained between the Deputy Governor (BOJ) and the Head of the International Loan Management Division (MOF) and the USAID ESF office throughout the program. All relevant documentation (PROAG, PROAG Amendments, PILs, requests for disbursement, quarterly reports, etc) will be distributed to both the BOJ and MOF.

Beside being the key agencies for policy dialogue, the major implementation responsibility for US dollars and local currency operations also rests with the BOJ, MOF, and with the Export-Import Bank of Jamaica (EXIM). The Bank of Jamaica, Operations Division (officer in charge: Deputy Governor) manages banking and marketing operations and the currency department and debt servicing of the BOJ. Under the ESF program, the BOJ Operations Division manages the U.S. dollar cash transfer. It establishes the special interest bearing account in the U.S. to receive the funds, and it arranges to liquidate the funds for payments as agreed with AID. The BOJ also monitors the U.S. dollar special account balance and the movement of funds, and reports these to USAID. EXIM manages the import financing component of the program.

The Ministry of Finance, Development and Planning, International Loan Management Division (officer in charge: Head of the International Loan Management Division) monitors and reports on funds from international lending agencies, donor countries and Government of Jamaica revenues for funding projects and programs negotiated by agreements with international donors and lending agencies. The MOF manages the local currency portion of the ESF program. It negotiates the use of the jointly programmed Jamaican dollars with USAID, manages the Special Account, and reports on disbursements from the account and on balances. The MOF also initiates the financing request to AID for the U.S. dollar cash transfer and is responsible for submitting a consolidated quarterly report to AID on local currency expenditures and balances.

The third GOJ agency that is involved in implementation is the Planning Institute of Jamaica (PIOJ). The PIOJ (in conjunction with the Ministry of Finance) initiates the policy dialogue with USAID and is responsible for officially requesting the ESF program. The PIOJ sends a letter to USAID documenting the policy objectives. The PIOJ director is also a GOJ authorized representative under the Grant.

D. Local Currency Reporting:

On a quarterly basis, the MOF (Economic Division/Public Debt Section/International Loan Monitoring Unit) will compile information on actual expenditures for eligible activities. This information is drawn from monthly reports submitted by the line ministries on their expenditures from the GOJ's Consolidated Fund. Also on a quarterly basis, the MOF International Loan Monitoring Unit will request the Bank of Jamaica to transfer an equivalent amount of funds from the Special Account(s) to the GOJ's Consolidated Fund as reimbursement for GOJ expenditures incurred by eligible activities. The MOF will transmit a copy of this request, along with copies of the monthly bank statements for the Special Account(s) from the Bank of Jamaica to the Mission ESF Project Officer.

Following the end of the Jamaican Fiscal Year and the GOJ's own internal reconciliation of the year's expenditure figures, the MOF will transmit a copy of the final yearly report to USAID signed by the MOF's Auditor General.

E. USAID Monitoring Arrangements

A program committee consisting of the Mission Economist, Mission Controller, Mission Program and Project Development Chief, and the Mission Project Development Officer supported by an FSN program assistant will have responsibility to monitor the program for the Mission.

Progress towards policy objectives will be watched primarily by the Mission Economist. The Economist will document progress and recommend appropriate policy objectives and approaches for each successive tranche of assistance, in close coordination with the Inter-American Development Bank, IMF and any other donors that may be pursuing similar policy dialogue with the GOJ.

The ESF Officer will maintain the program files and initiate implementation actions to assure the program is soundly managed and achieving its objectives. The ESF officer also will maintain close contact with the working level staff in the BOJ and MOF who monitor the program. For individual projects not already monitored by USAID, but supported by local currency under the program, the ESF officer will also from time to time visit the concerned donors and/or the GOJ implementing agency to spot check selected projects. Approximately 50 percent of the time of one FSN program assistant will be devoted to monitoring the foreign exchange and local currency components of the program. USAID is currently establishing a computerized local currency tracking system that will reduce mission management workload and help assure accurate and timely data on the status of local currency. The Controllers office will review the operation of the monitoring systems and see that financial reviews by auditors are carried out as necessary.

F. Evaluation Arrangements

Progress toward policy objectives will be analyzed by the Mission prior to each tranche of assistance and discussed in conjunction with the proposal for each successive policy and implementation agenda. A grant covenant calls for a letter of request for each tranche, including evidence that progress is being achieved toward agreed policy objectives. USAID will provide an analysis of progress and the proposed agenda for AID/W review prior to obligating subsequent tranches of assistance under this program. In response to the increased emphasis on measuring the impact of macro-economic and sector policy reform on the poor (State 267481), the Mission can and will avail itself of several existing sector studies, evaluations, and monitoring reports as well as existing and ongoing social and economic surveys by the PIOJ and the World Bank. Where there are gaps the Mission will carry out appropriately targeted studies.

The intent of the local currency programming exercise is largely to assure that priority development projects are able to access necessary counterpart funds to help assure these activities are not unduly constrained by the lack of local funds. In most cases these activities will have evaluation plans to measure progress and impacts, because they will be funded by AID or other international donors. For these activities USAID intends only to monitor to assure that agreed funding amounts are provided for the agreed projects. If a special activity (i.e. not donor financed) is accepted for support under the program it will be separately evaluated against agreed benchmarks of progress.

G. Audit and oversight

The Mission has had discussions with the Auditor General of Jamaica regarding audit coverage for the local currency equivalent under the program. The Auditor General has agreed to provide audit coverage for these funds at no cost to the program as long as this is included in the agreement as a requirement. The Mission intends to do this and to request the report on an annual basis.

The Auditor General has provided audit service before on USAID loans and on World Bank and IDB programs, and has the capability to audit this program at acceptable standards. The Auditor General is responsible for auditing all moneys which are disbursed from the consolidated fund.

The Controller's Office and Office of Program and Project Development ESF Officer have coordinated oversight of the GOJ reporting. The Controller's Office will continue to make an annual review, checking the deposit of funds into the special US dollar account, the disbursement of funds from the account and the deposit of local currency into an interest-bearing special account. Although quarterly reports are received from the Ministry of Finance on the projects financed from the local currency account and the account itself, we will rely on the Auditor General to verify these during the audit process.

VI. ENVIRONMENTAL CONSIDERATIONS

A categorical exclusion was processed for the full amount of funding expected under PRISPI, including this amendment, in the original PAAD.

VII. PAYMENT PROCEDURE AND VERIFICATION:

The Grant will be disbursed as a cash transfer. USAID/Jamaica will request AID/W to make the deposit into the GOJ's Special Account in the US bank, in the US. AID/W will advise USAID/Jamaica about the amount and date of the deposit. USAID/Jamaica will confirm this information with the GOJ (Bank of Jamaica).

Mission Controller concurs that the payment verification policy has been complied with.

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

<u>ISSUE</u>	<u>BACKGROUND</u>	<u>FUNDS ALREADY OBLIGATED FROM FY 1991 ESP (\$12 MILLION)</u>
I. Economic Policies for Sustainable Growth		
A. Liberalization of the Foreign Exchange Regime.	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 ESP 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. Monetary and Fiscal Policy	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.
C. Bank of Jamaica Losses	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 MOP sufficient to cover BOJ losses to Central Government accounts.
D. Strengthening Fiscal Policy Process	Sustainability of GOJ reform agenda requires clearer, more traditional roles for BOJ and MOP. In turn, this may require strengthening MOP fiscal analysis/policy formulation capabilities.	Commitment by the GOJ to study strengthening of fiscal analysis and fiscal policy formulation process, including MOP.

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 ESP
(\$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.

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 ESP, or when mutually agreed to by BOJ and USAID.

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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 NIBJ. 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 ESP

SECOND TRANCHE FROM
FY 1992 ESP

FIRST TRANCHE FROM
FY 1993 ESP

SECOND TRANCHE FROM
FY 1993 ESP

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.

P

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.

FIRST TRANCHE FROM
FY 1992 ESP

SECOND TRANCHE FROM
FY 1992 ESP

FIRST TRANCHE FROM
FY 1993 ESP

SECOND TRANCHE FROM
FY 1993 ESP

II. A Better Private Investment Environment
(Continued)

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.		

THE PLANNING INSTITUTE OF JAMAICA



ANY REPLY OR SUBSEQUENT REFERENCE
TO THIS COMMUNICATION SHOULD BE
ADDRESSED TO THE DIRECTOR GENERAL
P.O. BOX 634, KINGSTON

Telephone: 926-1480-8
Telex: 3529 PLAN JAM JA
Facsimile: (809) 926-4670

39-43 Barbados Avenue
Kingston 5 Jamaica W.I.

Ref. No.

September 17, 1992

Mr. Robert Queener
Director
United States Agency for International Development
6B Oxford Road
Kingston 5

Dear Mr. Queener:

We understand from our ongoing policy dialogue that additional ESF resources could be made available to Jamaica under USAID's Policy Reform in Support of Private Investment Project. These funds would be made available on the basis of recent progress on the policy agenda with the multilateral lenders and USAID.

As you are aware, on 25 September 1991, the Government of Jamaica liberalized the foreign exchange regime, providing among other things for free capital movement for both citizens and non-citizens. The importance of this policy measure to improving the private sector investment environment, and for the ultimate benefits of the Jamaican economy at large cannot be over emphasized. The Government has rescinded the Foreign Exchange Control Act, and has already dismantled the Foreign Exchange Control Division at the Bank of Jamaica (BOJ). To limit speculation against the Jamaican dollar, the BOJ has required that banks set a trading price at the beginning of each day and hold that price for the day. Adjustments to the market can be made at the beginning of each trading day. Since April 1992, the foreign exchange market has been quite stable, with the Jamaican dollar appreciating by over 20 per cent. Inflows of foreign exchange have also risen dramatically.

The Government has taken appropriate macroeconomic steps to support the liberalization process. These actions include tighter monetary and fiscal policies. Consequently, the monthly change in the CPI declined from 7.7 per cent in February 1992 to 0.7 per cent in June 1992. Additionally, the Minister of Finance announced an overall public sector surplus of 0.7 per cent of GDP in this year's budget presentations. Another indication of the continued stability of the macro-economic situation is the fact that Jamaica has successfully completed the 1991/92 Standby Programme with the IMF and negotiations are far advanced for an Extended Fund Facility which is expected to go to the IMF Board in early December.

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DIRECTORS: Dr. Omar Davies - Director General/Chairman, Dr. Allan Kirton, Mrs. Barbara Gunter, Dr. Arnel Henry,
Mr. Vernon James, Dr. Edwin Jones, Dr. E.G. Marshall, Mr. Derrick Latibeauders.

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The Government is also taking action of the management and reduction of losses accumulated by the BOJ from rising interest costs of public debt and holdings of non-earning government bonds. On 1 April 1992, the Government issued an interest-bearing certificate to the BOJ equal to the Bank's annual loss for fiscal year 1991/92 of J\$2.5 billion.

Interest payments on this certificate are provided for in the 1992/93 fiscal budget and the first will be made in October, 1992. The Government is working with the IMF within the context of the Extended Fund Facility, to which reference was made, to develop a detailed plan of action and timetable for the elimination of remaining BOJ losses. The plan under consideration will ensure that all BOJ losses are eliminated by the end of Jamaican fiscal year 1994/95 - i.e. within approximately two years. It includes a combination of cash transfers from the Ministry of Finance to the BOJ, the retirement of outstanding certificates of deposit and the issuance of new longer term instruments with interest payments specifically provided for in the Government's annual budget. The Minister of Finance has also named a Commission to explore the possibility of more independent role for the central bank. Recently, action has also been taken to transfer Government's operating accounts to commercial banks.

Effective as of the end of September 1992, the Government will be publishing monetary and reserve data each month on a timely basis. Specifically the BOJ's objective will be to publish totals of Net International Reserves and base money no later than 15 working days after the end of the month for which the data apply.

Improvements continue to be made in the implementation of the General Consumption Tax. On 1 August 1992, a separate Magistrates' Court started handling the adjudication of tax cases, with operations in Kingston and Montego Bay. Attempts to reduce the incidence of non-filers has seen the non-compliance record of large taxpayers decline from 20 per cent to 17 per cent. This group contributes over 90 per cent of taxes payable. While the registration of businesses has continued slowly with registered taxpayers increasing by 800, some difficulties have been experienced in switching registered persons into the registered taxpayers category. The GCT Department is currently reviewing the system of audit and investigation, and considering changes in regulations to deal with the reluctance of persons to comply with the necessary procedures. Finally, the audit of stock credits issued at the inception of the GCT, is nearly complete. The value of the credits is greater than expected and has resulted in a delay completion of credit valuation from August to September 1992.

In order to strengthen the fiscal policy analysis capacity at the Ministry of Finance, a working group has been established to facilitate the implementation of the action plan agreed to by USAID and the Government.

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Recruitment of staff members including Jamaican counterparts for a Fiscal Policy Management Unit is underway, and a workshop for Ministry personnel in the Unit has been budgeted and approved. USAID is currently holding discussion with other lenders/donors in order to identify additional resources to support the Unit.

All of the major procurement contracts in support of the accelerated privatization effort are in place. The study of the privatization of Sangster International Airport has been completed and presented to the Government. The Government is reviewing its options, and a decision by the Cabinet Subcommittee is imminent. Other Government assets of over J\$600 million have been privatized in the last 12 months, and major assets in the sugar, steel and cement industries are being prepared for sale. Assets in excess of J\$500 million are being advertized for sale.

Legislation to create Employee Stock Option Plans has been drafted and is being reviewed by Government and the private sector. This legislation is expected to be tabled in Parliament this September. Further, credit union reform legislation allowing market rates of interest on deposits and loans was passed by the Parliament ahead of schedule, assuring greater competitiveness for this important segment of the financial sector.

We are pleased to report that the Securities Act, proposing major reforms in the securities market and the Fair Competition Act needed to control non-competitive practices and their negative impact on consumers and investors were submitted to the Parliament. Both pieces of legislation have been considered by Select Committees of the House, which are reviewing recommendations from a number of organizations including the World Bank. The Securities Act is currently with the Select Committee and is expected to be re-submitted to Parliament for passage in the next two to three months. The Fair Competition Act has already been re-submitted to Parliament for passage. In addition, the Government is currently exploring support, including training, for the establishment of the Fair Trading Commission.

Finally, the Planning Institute of Jamaica has taken the first steps, with other Government and trade organizations, to create the data base and a process for setting indicative targets for domestic and foreign investment, and for overall foreign exchange earnings. These targets will be used as benchmarks against which to gauge the effectiveness of other macroeconomic, financial, and investment sector reforms.

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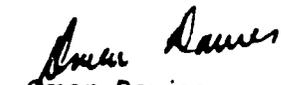
Mr. Robert Queener

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September 17, 1992

In general, the ongoing economic policy dialogue is well formulated for furthering the principles of a free-market economy. It is against this background that on behalf of the Government of Jamaica, the Planning Institute of Jamaica hereby request that a minimum of US\$15 million of economic assistance appropriated for Jamaica be made available immediately under the Policy Reform in Support of Private Investment Project.

Yours sincerely,


Omar Davies
Director General

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5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

Yes

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on 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.

The Program will provide balance of payments support the Government of Jamaica required for its economic recovery program

2. U.S. Private Trade and Investment (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).

The assistance will promote the development of Jamaican private sector activities resulting in trade linkages with the U.S. private sector

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3. Congressional Notification

a. **General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes

b. **Notice of new account obligation (FY 1991 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

Yes

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

6. **Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501):** If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)):** Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes

8. **Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Multiple Country Objectives (FAA Sec. 601(a)):** Information and conclusions on whether projects 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.

Program is designed to encourage market oriented policies that will benefit international trade and incite private sector development

10. **U.S. Private Trade (FAA Sec. 601(b)):** Information and conclusions on how project 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).

Program will foster trade & foreign exchange liberalization which will positively affect both local and US funds

11. **Local Currencies**

a. **Recipient Contributions (FAA Secs. 612(b), 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A

b. **U.S.-Owned Currency (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?

The US does not own excess Jamaican currency

c. **Separate Account (FY 1991 Appropriations Act Sec. 575).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

a) Yes

b) Yes

c) Yes

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of No

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textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

a) No
b) No

14. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Yes

16. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

17. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

N/A

18. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

N/A

19. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No

b. Will any funds be used to lobby for abortion? No

20. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? No

21. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. No

b. Release of currencies (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? N/A

22. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? N/A

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Yes

d. Non-U.S. agricultural procurement (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the N/A

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. U.S. air carriers

(International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

i. Termination for convenience

of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N/A

j. Consulting services

(FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

k. Metric conversion

(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest

N/A

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documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. Competitive Selection

Procedures (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

23. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A

24. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

25. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

N/A

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26. Narcotics

a. **Cash reimbursements (FAA Sec. 483):** Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? Yes

b. **Assistance to narcotics traffickers (FAA Sec. 487):** Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes

27. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes

28. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

29. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

30. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

31. **Military Personnel (FY 1991 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

32. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

33. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

34. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes

35. **Repression of Population (FY 1991 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

36. **Publicity or Propoganda (FY 1991 Appropriations Act Sec. 516):** Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? Yes

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37. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

38. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

N/A

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

4. Indigenous Needs and Resources (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.

N/A

5. Economic Development (FAA Sec. 101(a)): 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?

N/A

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe 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, dispersing investment 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 appropriate U.S. institutions; (b) 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

N/A

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and the improvement of women's status; and
(e) utilize and encourage regional
cooperation by developing countries.

7. Recipient Country Contribution
(FAA Secs. 110, 124(d)): Will the
recipient country provide at least 25
percent of the costs of the program,
project, or activity with respect to which
the assistance is to be furnished (or is
the latter cost-sharing requirement being
waived for a "relatively least developed"
country)?

N/A

8. Benefit to Poor Majority (F.L.A
Sec. 128(b)): If the activity attempts to
increase the institutional capabilities of
private organizations or the government of
the country, or if it attempts to
stimulate scientific and technological
research, has it been designed and will it
be monitored to ensure that the ultimate
beneficiaries are the poor majority?

N/A

9. Abortions (FAA Sec. 104(f); FY
1991 Appropriations Act, Title II, under
heading "Population, DA," and Sec. 535):

a. Are any of the funds to be
used for the performance of abortions as a
method of family planning or to motivate
or coerce any person to practice
abortions?

N/A

b. Are any of the funds to be
used to pay for the performance of
involuntary sterilization as a method of
family planning or to coerce or provide
any financial incentive to any person to
undergo sterilizations?

N/A

c. Are any of the funds to be
made available to any organization or
program which, as determined by the
President, supports or participates in the
management of a program of coercive
abortion or involuntary sterilization?

N/A

- d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A
- e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A
- f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A
- g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? N/A
10. Contract Awards (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N/A
11. Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? N/A

12. Biological Diversity (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. A.I.D. Regulation 16: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

N/A

b. Conservation: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions

N/A

which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

N/A

forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

N/A

14. Energy (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. Sub-Saharan Africa Assistance (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

N/A

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private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

N/A

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from

N/A

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; (2) 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; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) 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 programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe 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.

N/A

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe 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 outreach.

N/A

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and 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 of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

- a. concerned with data 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 facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment; N/A
- b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A
- c. research into, and evaluation of, economic development processes and techniques; N/A
- d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A
- e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A
- f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. Economic and Political Stability (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

2. Military Purposes (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? No

3. Commodity Grants/Separate Accounts (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? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) N/A

4. Generation and Use of Local Currencies (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 at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).) Yes

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer: Yes

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? Yes

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

Yes

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes

DRAFTER:GC/LP:EHonnold:5/17/91:2169J

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ACTION: AID-2 INFO: AMB DCM ECON

VZCZCIG0953
 PP RUEHKG
 DE RUEHC #1537/01 2690243
 ZNR UUUUU ZZH
 F 240241Z SEP 92
 FM SECSTATE WASHDC
 TO AMEMBASSY KINGSTON PRIORITY 1286
 BT
 UNCLAS SECTION 01 OF 02 STATE 311537

24-SEP-92 TOR: 12:34
 CN: 43535
 CHFG: AID
 DIST: AID
 ADD:

AIDAC ATTN: ROBERT QUEENER

E.O. 12356: N/A

TAGS:

SUBJECT: REVIEW OF THE JAMAICA POLICY REFORM IN SUPPORT
 OF PRIVATE INVESTMENT PAAD FOR FY 1992 (532-0164) AND
 REDELEGATION OF AUTHORITY TO AMEND THE PAAD AGREEMENT

REF: QUEENER LETTER AND SUPPORTING DOCUMENT OF
 9/8/92 TO BLOOM

1. SUMMARY OF PROGRAM REVIEW: A REVIEW OF THE JAMAICA FY 1992-1993 ESF BALANCE OF PAYMENTS SUPPORT PROGRAM WAS HELD ON 9/15/92 AT A MEETING CHAIRED BY PETER BLOOM, LAC/DR AND ATTENDED BY REPRESENTATIVES FROM DR, DFF, CAR, FA/E, AND ARA/ICP. USAID/JAMAICA WAS REPRESENTED BY CHARLES MOHAN, ECONOMIST FOR THE MISSION. RESULTS OF THE MEETING WERE THAT THE MISSION'S REVISED POLICY MATRIX AND SUPPORTING DOCUMENTATION OF JAMAICA'S PROGRESS ON THE BASKET OF POLICY MEASURES DESIGNED TO ACHIEVE THE OVERALL GOALS OF THE ESF PROGRAM WERE ACCEPTABLE AND JUSTIFIED THE AUTHORIZATION/DISBURSEMENT OF THE DOLS 15 MILLION ESF TRANCHE FOR FY 1992. SINCE THERE WERE NO MAJOR UNRESOLVED ISSUES, A DAFC MEETING WAS NOT NECESSARY. AA/LAC APPROVES THE FY 1992-1993 POLICY MATRIX SUBJECT TO MODIFICATIONS OUTLINED IN PARA. 3 BELOW AND WITH THE UNDERSTANDING THAT IT WILL WILL BE RESUBMITTED TO AID/W FOR A REVIEW OF

PROGRESS PRIOR TO THE RELEASE OF ANY FY 93 TRANCHE OF ESF FUNDS. FURTHERMORE, AA/LAC REDELEGATES AUTHORITY TO THE MISSION DIRECTOR TO AMEND THE EXISTING PAAD AUTHORIZATION AND TO DISBURSE THE FY 92 DOLS 15 MILLION ESF TRANCHE.
 END SUMMARY.

2. THE PURPOSE OF THE REVIEW MEETING WAS TO IDENTIFY AND TO DISCUSS ANY IMPORTANT ISSUES OR CONCERNS RELATED TO THE REVISED CONDITIONALITY PACKAGE PREPARED BY THE MISSION. THE MEETING FOCUSED MAINLY ON MR. MOHAN'S BRIEFING OF THE SOLID POLICY PROGRESS MADE IN THE LAST 12 MONTHS, AND ON THE KEY FISCAL AND MONETARY STEPS BEING TAKEN BY THE GOVERNMENT OF JAMAICA (GOJ) TO STABILIZE THE EXCHANGE RATE AND CONTROL THE COUNTRY'S HIGH INFLATION RATE. IT WAS NOTED THAT WHILE THERE HAS BEEN DRAMATIC IMPROVEMENT SINCE FEBRUARY/MARCH, 1992, SUSTAINED IMPROVEMENT MAY BE UNDERMINED BY A PREMATURE LOOSENING OF FISCAL POLICY AND POTENTIALLY INFLATIONARY WAGE SETTLEMENTS. IN THIS

DATE RECEIVED:	
ACTION OFFICE:	
INFO TO:	
DIR	ARDD
D/DIR	OHNP
RLA	OENR
ECON	CPPD
OEEE	OPE
EXO	RHUDO
CONT	R.F.
DUE BY:	
ACTION:	

CONTEXT, THE MISSION IS KEEPING A CLOSE WATCH ON MONETARY POLICY IN ITS ON-GOING DIALOGUE WITH THE GOJ. HOWEVER, GIVEN THE INITIAL EFFECTIVENESS OF THE CURRENT MIX OF GOJ'S MONETARY AND FISCAL POLICIES AND THE SATISFACTORY PROGRESS ON USAID'S SPECIFIC BASKET OF CONDITIONALITY SET FORTH IN THE PAAD POLICY MATRIX, NO MAJOR ISSUES WERE RAISED. THE DISCUSSIONS SERVED TO CLARIFY THE CURRENT ECONOMIC SITUATION IN RESPONSE TO THE POLICY MEASURES BEING APPLIED AND TO ANSWER QUESTIONS ON THE USES OF LOCAL CURRENCY GENERATED BY ESF FUNDS.

3. AS A RESULT OF THE REVIEW MEETING, AID/W REQUESTS THAT THE FY 92-93 CONDITIONALITY BE TIGHTENED IN THE FOLLOWING AREAS: A) PUBLICATION OF MONETARY AND RESERVE DATA SHOULD BE MADE MORE SPECIFIC, I.E., MONTHLY DATA TO BE PUBLISHED WITHIN 15 WORKING DAYS OF CLOSING THE BOOKS AT THE END OF EACH MONTH AND SIMILARLY, THE TIMEFRAME FOR PUBLICATION OF WEEKLY DATA SHOULD BE MADE A SPECIFIC ELEMENT OF CONDITIONALITY FOR THE FY 93 ROUND OF NEGOTIATIONS; B) DELETION OF THE CONDITIONALITY ON THE AUTONOMY BETWEEN THE BANK OF JAMAICA (BOJ) AND THE MINISTRY OF FINANCE (MOF) AS A SEPARATE ELEMENT OF THE POLICY MATRIX IS ACCEPTABLE, ASSUMING THE MISSION IS SATISFIED THAT OTHER DONOR ASSISTANCE IN THIS AREA ADDRESSES ITS ORIGINAL CONCERN REFLECTED IN EARLIER PAAD DOCUMENTATION. HOWEVER, THIS CONCERN IS AN INTEGRAL PART OF THE STRENGTHENING FISCAL POLICY PROCESS AND SHOULD BE MONITORED AND REPORTED ON. REQUEST MISSION TO REVISE SUPPORTING NARRATIVE FOR THE FY 92 PAAD AMENDMENT TO INCLUDE PROGRESS AND SCOPE/DURATION OF THE GERMAN

TECHNICAL ASSISTANCE TO THE BOJ. THE REVISED TEXT AND POLICY MATRIX SHOULD BE SENT TO AID/W.

4. DUE TO CONTINUING CONCERNS RELATED TO LOCAL CURRENCY GENERATIONS FROM ESF AND THEIR POTENTIAL DISTORTIONARY EFFECTS ON GOJ'S BUDGETARY PRIORITIES, LAC BUREAU WISHES TO ADVISE MISSION THAT THE PROGRAM GOAL IS TO MOVE TOWARDS GENERAL BUDGET SUPPORT AND NOT TO TIE LOCAL CURRENCY GENERATIONS TO SPECIFIC PROJECT ACTIVITIES. LC SUPPORT TO STAND ALONE PROJECTS, I.E., THOSE NOT INVOLVING USAID OR OTHER DONOR ACTIVITIES, ARE TO BE AVOIDED. FURTHER GUIDANCE TO ALL MISSIONS ON THIS SUBJECT WILL BE FORTHCOMING. MISSION IS REQUESTED TO REVIEW OPTIONS AND TO DETERMINE HOW BEST TO MOVE IN THIS NEW DIRECTION ON LOCAL CURRENCY USES. USAID IS REQUESTED TO INFORM AID/W OF DECISIONS MADE ON THIS MATTER.

5. AA/LAC COMMENDS THE JAMAICA MISSION ON THE PROGRESS

UNCLAS SECTION 02 OF 02 STATE 311537

BEING ATTAINED IN ITS POLICY REFORM DIALOGUE AND THE
CONCRETE ACHIEVEMENTS OUTLINED IN ITS FY 1992 PIAD REPORT.
THE PAAD DOCUMENTATION IS WELL WRITTEN AND PRESENTS A
BALANCED ASSESSMENT OF JAMAICA'S ECONOMY AND THE MEASURES
THAT THE GOJ IS APPLYING TO BRING IT UNDER BETTER CONTROL.
HE REITERATES HIS STRONGEST SUPPORT OF THE OBJECTIVES TO
WHICH THIS POLICY REFORM ACTIVITY IS DIRECTED AND WISHES
THE STAFF CONTINUED SUCCESS IN FY 1993. WISNER

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