532-0134
532-K-604

PD-KAW-148

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

INFORMATION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR (LAC)

FROM: LAC/DR, Terrence J. Brown

SUBJECT: Issues Paper - Jamaica FY 1988 PAAD (532-0134)

The DAEC Meeting on the subject PAAD has been scheduled for Monday, December 14, 1987, at 10:30 a.m. in the LAC Conference Room (2248 N.S.)

Background: Since FY 1985, A.I.D. has provided ESF grants of $164 million to the Government of Jamaica (GOJ) under the Production and Employment Projects (532-0100,-0111,-0124). The objectives have focused on overall policy reform support to achieve the most productive use of resources and to improve the efficiency of the public sector agencies in their use of scarce resources, both real and monetary. In past years, this has meant supporting GOJ efforts to establish a more market-oriented, private sector driven economy, primarily through ESF and the P.L. 480 Program. These efforts are now beginning to pay dividends in the form of higher growth rates and dwindling government involvement in economic decisions.

Jamaica's policy response to date has been steady and responsible, particularly in the current adherence to the strict monetary, fiscal, and wage and prices policies necessary to meet the IMF program. The positive economic response to more market-oriented policies adopted in the early 1980's was interrupted by the near collapse of the world alumina and bauxite market, which reduced Jamaica's foreign exchange earnings by well over U.S. $1 billion over the five year period 1982-87. However, during the last 18 months, Jamaica has made significant progress with its structural adjustment program, with strong increases in the tourism sector, and in non-traditional exports. Jamaica's economic recovery is being fueled by private enterprise growth, while the size of the public sector has been reduced, and the unemployment rate has decreased slightly. The economy seems certain to record its second consecutive year of three to four percent growth in GDP, marking the first back to back years of increasing real per capita GDP since the early 1970s.

Description of Proposed Activities: The Mission proposes that the FY 1988 ESF will be the last opportunity, before national elections in Jamaica must be called, that the United States has to demonstrate significant support for the program of structural adjustment and policy reform embarked upon some seven years ago by Jamaica. The investment in Jamaica has resulted in decline in the role of the public sector, revitalization of the private sector and financial markets, the growth in hard currency, non-traditional exports, and the present economic recovery.

The Mission thinks that adjustments and reforms can be further strengthened and defended through support for a core program of policy reform which includes: (1) adherence to fiscal and monetary measures which have been the base of the structural adjustment program; (2) new privatizations through share offers; (3) strengthening of capital market institutions; (4) debt-equity swaps; and (5) identification of government subsidies.

Additional policy reforms which the mission feels would be possible under higher levels of funding include streamlining the existing indirect tax system as a precursor to the introduction of the full General Consumption Tax, amendments to the corporate tax regulations that would remove the bias against equity financing, and incremental adjustments in the liberalization of exchange controls.

Conditionality in Jamaica

Over the course of the last two years, USAID/Jamaica's approach to policy dialogue has evolved such that discussions begin far in advance on policy and structural reform which would warrant an ESF program. The agreed upon activities are then completed prior to signing an ESF agreement. Previously the agreements had called for highly specific conditionality that was often difficult to fulfill to the exact terms in the agreement.

The approach adopted over the last two years has been very successful. For Production and Employment VI, USAID/Jamaica and the GOJ reached an agreement in advance of ESF obligation in which the GOJ would approve legislation reforming the personal income tax system. The GOJ did this, and the first and most important phase of Jamaica's comprehensive tax reform has become a model for other developing countries.

For Production and Employment VII, USAID/Jamaica and the GOJ reached an agreement that provided for approval of legislation for the corporate income tax system. USAID/Jamaica and the GOJ also reached agreement on the privatization by share offer of the National Commercial Bank (NCB). The corporate income tax legislation was approved and has helped to redress the tax bias against equity financing in private sector. The NCB share offer was a tremendous success and helped to create a new group of small investors. In addition the NCB success lent credibility to the concept of privatization which enabled the GOJ to proceed with the privatization by share offer of the Caribbean Cement Company, a program to sell off hotels and other important private sector policy measures. Together the corporate tax reform and the NCB privatization have helped to revitalize Jamaica's capital markets. Major efforts toward these policy changes were completed before the program was obligated.

The Mission's shift in approach has been a tactical move much appreciated by the GOJ. The improvement in bilateral relations is reflected in large part by a feeling that there is in fact a policy dialogue taking place which allows the GOJ to actively participate in the process of defining appropriate policy reform measures, rather than mechanically complying with conditions imposed from outside. The policy accomplishments of this approach have been documented in a GAO audit and a draft PPC/LAC evaluation.

Terms of Aid

The Mission is requesting a $45 million grant ESF program. Jamaica's GNP per capita is $860, which qualifies it for loan financing under the Agency's guidelines on terms of aid. In the most recent Action Plan Review (FY 88-89), it was decided that LAC would request the Administrator's approval of grant financing for the ESF program.

All grant financing for FY 1986 and FY 1987 was approved by the Administrator on June 24, 1986, but does not extend to the FY 1988 program, and the Mission does not provide a specific justification for all grant funding. The justification put forth in FY 1986 included Jamaica's high debt burden, the recent collapse of the bauxite markets, and U.S. policy interests in supporting Seaga's program.

At present Jamaica still retains a high debt burden, which an ESF loan would only increase. And the U.S. still maintains an interest in supporting the economic reform program started by Seaga. However, as analysis in the PAAD demonstrates, Jamaica is enjoying a second consecutive year of significant economic growth, which diminishes the economic rationale for grant terms. Therefore, the rationale for a FY 88 grant ESF program could only be based on the continuing debt service burden and as an incentive to continue the economic adjustment process. LAC/DR is processing a request for an all grant ESF program for FY 1988 and FY 1989.

Recent Developments

In recent AID/W budget discussions, prospects for a large Jamaica ESF program were dim, and the proposed level was reduced to $25 million. In an November 17 meeting between Ambassador Woods and Ambassador Sotirhos, A.I.D. was alerted to Jamaica's need for a first disbursement under the FY 1988 program by December 31, 1987. Administrator Woods indicated that A.I.D. was sympathetic to the Jamaican need and would put forth its best efforts to secure financing in a timely manner, but also noted the severe budgetary constraints facing the Agency.

A request for an $11.5 million apportionment to be disbursed in December was reduced to $10.0 million in order to expedite the clearance process through State. However, State/T has reversed its position. The current position held by State is that the high level of earmarked ESF makes it unrealistic to encourage Jamaica's hopes for a $25 million or even $15 million program. State is now willing to sign the apportionment request for only $5.0 million, anticipating that this would approximate 50% of the FY 1988 ESF program.

Clarification

The environmental determination is incomplete. The Mission will be required to submit a signed Initial Environmental Evaluation. This determination must also include a discussion of the Mission's role in programming local currency and possible impact on environmental concerns.

The amount proposed for obligation during December ($5.0 million) does not exceed 50% of the anticipated total ESF program for FY 1988, consistent with Section 481(h) of the Foreign Assistance Act. A Congressional Notification (CN) was sent to the Hill on December 8, 1987 and will expire December 22, 1987. This CN is a re-notification as the program was originally described in the FY 1988 Congressional Presentation. Language proposed for the FY 1988 Continuing Resolution would require that Congress be notified before any funds are obligated for Jamaica.

Local currency monitoring and programming procedures have been approved by controller staff.

The following issues will be discussed:

1. Level of Request - The PAAD continues to center its primary analysis and facesheet request on a $45 million level of

funding. While a $45 million program may be approved, the authorization must reflect only the amount of funds appropriated, which is likely to be a lesser amount.

-Given the dramatic cuts expected in ESF, what is a realistic level of ESF funding for Jamaica in FY 1988?

-Will Jamaica be given priority consideration for ESF which may become available later in the year?

2. Conditionality

A. The Jamaica Concepts Paper Review cable instructed the Mission that "the PAAD will explicitly include a general covenant for continuing compliance with fiscal/monetary targets and a competitive exchange rate. Compliance with the covenant would be a requirement to disbursement of subsequent tranches." Financial stabilization is widely recognized as a prerequisite to self sustaining development. Continued compliance is critical if the gains of the supply side structural adjustments are to be realized. While the GOJ has been in compliance for three quarters with an IMF stand-by, there is concern about whether it will remain in compliance with an acceptable financial stabilization program over the coming year with the impending election.

-Should the FY 1988 program include specific conditionality?

-If conditionality is to be included should it be general and programmatic in nature, or should specific targets and dates be established? yes

-What will be the impact of conditionality which may delay the disbursement of the second tranche, given Jamaica's probable need to meet IMF payments in March?

-If timing is a problem, should the Mission maintain the proposed covenant, which includes a provision for development of a FY 88-89 fiscal and monetary program consistent with financial stabilization, but not require continued compliance as a condition to disbursement?

B. The PAAD proposes a large number of policy reforms. LAC believes that the most important reforms which appear politically feasible at this point include privatization, steps to remove public enterprise subsidies, and progress toward enacting a general consumption tax by streamlining the existing indirect tax system. The strengthening of capital markets, debt equity swaps, corporate tax reforms, and relaxation of exchange controls are either less critical at this juncture or are not likely to be implemented because of political pressures during an election year.

-Should the Grant Agreement conditionality be limited to the most important politically feasible reforms? By so limiting the focus, will it be possible to strengthen and specify more precisely what would be accomplished?

3. Use of dollars

The PAAD proposes to use the dollars provided from the ESF program for debt service; debt owed to the U.S. government will have first priority. The mission is also requesting concurrence of the AA/LAC to use cash transfer dollars to service debt owed to the multilateral banks and the IMF. Recent Bureau guidance (STATE 208446), emphasizes the use of dollar resources for imports, "AA/LAC has determined that unless there are exceptional circumstances, dollars should be used for private sector imports of essential goods and services."

-Should the proposed use of dollars be approved as an exception to A.I.D. policy?

#2396N Drafted M. Stephens 12/9/87
Clearance:
LAC/DR, PKBuckles_________date_11 Dec '87

CLASSIFICATION: UNCLASSIFIED

AID 1120-1

PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO 532-K-604 532-0134
		2. COUNTRY Jamaica
		3. CATEGORY Cash Transfer
		4. DATE December 1, 1987
5. TO: AA/LAC, Dwight Ink		6. OYB CHANGE NO.
7. FROM USAID/Kingston, William R. Joslin		8. OYB INCREASE TO BE TAKEN FROM: Economic Support Funds
9. APPROVAL REQUESTED FOR COMMITMENT OF: $45,000,000		10 APPROPRIATION -
11. TYPE FUNDING ☐ LOAN ☒ GRANT	12. LOCAL CURRENCY ARRANGEMENT ☒ INFORMAL ☐ FORMAL ☐ NONE	13. ESTIMATED DELIVERY PERIOD FY 1988 / 14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $45,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $45,000,000	Other:

18. SUMMARY DESCRIPTION

Production and Employment VIII will provide an additional grant of $45,000,000 from Economic Support Funds. The purpose of the grant is to provide immediate balance of payments assistance to sustain Jamaica's recent record of impressive growth and thereby consolidate and defend the structural adjustments, policy reforms, and stabilization measures that the GOJ has undertaken during the last seven years. In spite of Jamaica's improved economic outlook, Jamaica is still saddled with a huge foreign debt servicing burden. These ESF resources, in conjunction with continued policy dialogue, are necessary to assist the GOJ in sustaining solid growth as Jamaica prepares for elections in 1988. The proposed ESF funds will be used to service debt and to finance the import of raw materials, spare parts, and capital goods by the private sector from the United States during U.S. FY 1988. The GOJ will deposit the U.S. dollars in a separate account for that use through reimbursement of the auction system. The GOJ will also deposit an equivalent amount of Jamaican dollars in a special account locally for use in high priority development sectors by the GOJ. Special conditions will promote further progress in reforming the country's policy framework in the areas of taxation, privatization, capital market development, and debt-equity swaps are expected to be materially satisfied prior to signature of the agreement by the GOJ.

The standard conditions precedent involving the submission of a legal opinion and the designation of authorized representatives will be satisfied prior to disbursement of funds pursuant to this grant.

19. CLEARANCES	DATE	20. ACTION
		☐ APPROVED ☐ DISAPPROVED
		AUTHORIZED SIGNATURE / DATE
		TITLE

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(0462U)

PROGRAM ASSISTANCE APPROVAL DOCUMENT

USAID/JAMAICA FY 1988

I. INTRODUCTION AND SUMMARY

This PAAD proposes an ESF grant for Jamaica of US$45 million in US Fiscal Year 1988, with a target signing date in December 1987. Based upon recommendations made at the ESF concepts paper review, the Mission has prepared two alternate scenarios, complete with policy dialogue agenda, for ESF levels of $15 million and $25 million. Specific issues raised in the ESF concepts review are addressed in Annex A. Based upon the economic analysis presented in the body of this PAAD, however, the Mission specifically recommends the $45 million scenario.

A. Economic Outlook

During the last 18 months, Jamaica has made significant progress with its structural adjustment program while reaching agreement with the IMF at the beginning of this calendar year and meeting the targets for its new stand-by arrangement. As a result, Jamaica has gone a long way to realizing its goal of achieving a market-oriented, export led economy, a program the present government embarked upon in 1980. This year the economy seems certain to record its second consecutive year of three to four percent growth (or higher) in GDP, marking the first back to back years of increasing real per capita GDP since the early 1970s.

Although the recent successes of the economy are encouraging, especially the direct measures undertaken by the GOJ to put its house in better order, the understandable optimism one feels after several bleak years must necessarily be tempered with caution. The Jamaican economy remains susceptible to external influences, such as the demand for tourism services, international interest rates, and world prices for its key exports, bauxite, alumina, and sugar, and its key import, petroleum. Internally, the advancing economy could well encounter potentially serious imbalances in its credit, money, foreign exchange, products and labor markets. These internal and external forces could threaten both the strength and durability of the present recovery, and, through political reverberations, the ultimate stability of the economy.

B. Strategy for Policy Dialogue

In light of the recent successes with policy reform, the Mission proposes to continue its successful approach to the ESF policy dialogue process. Discussions begin far in advance on policy and structural reforms the Government might take which, prior to signing an agreement, would warrant an ESF program. The excellent results obtained to date have encouraged the Mission to continue with this proven approach. The government has frequently taken actions that go beyond pledges of future measures that would have been acceptable in more formal, but less amicable negotiations. An excellent example of this is privatization.

Discussions with the GOJ on its policy program for this PAAD are at an advanced stage, and seek to sustain the momentum of the structural adjustment program. These discussions are taking place with the knowledge that Jamaica has passed the September targets under the IMF program, and thus that the fiscal and monetary measures undertaken by the GOJ are well on track.

The "core" policy measures that USAID/Jamaica is discussing with the GOJ, beyond the above noted fiscal and monetary measures that are now in place, are in the areas of privatization, capital market development, debt-equity swaps, and subsidies. In privatization, USAID/Jamaica is discussing with the GOJ the possibility of the share offer in the United Kingdom of an additional 10 percent (worth an estimated US$20 million) of the recently merged Jamaica Telephone Company and JAMINTEL, the privatization of additional smaller enterprises under the Divestment Committee, privatization of health care services, and irrigation fee reform. In the area of capital market development, USAID/Jamaica is discussing the enactment of new securities legislation to strengthen the Stock Exchange. We are encouraging the GOJ to complete at least two major debt-equity swap transactions by early March 1987. In the area of subsidies, we are also encouraging the GOJ to explicitly indentify any remaining subsidies.

For the medium case policy reforms, we are encouraging the GOJ to begin streamlining the existing indirect tax system as a precursor to the introduction of the full General Consumption Tax (GCT) in January 1989. (With elections approaching, the GOJ has been understandably reluctant to make any announcement about what might be perceived to be a "new" tax.) The high case policy reforms involve discussions with the GOJ on amendments to the corporate tax regulations that would remove the bias against equity financing by, e.g. allowing a tax credit for dividends if these credits are converted into equity. In the area of liberalization of exchange controls, we look for additional incremental adjustments and improvements consistent with the GOJ's policy of achieving a liberalized system once long term viability and stability has occurred in the balance of payments.

In summary, the recommendation for ESF at the proposed level of $45 million is based on the important achievements made by the GOJ in structural adjustment and stabilization, the encouraging performance of the economy over the past year and a half, and the need to sustain solid growth as Jamaica prepares for elections in 1988, which will be to a significant extent a referendum on whether to continue the policies that have been put in place the last few years.

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II. THE ECONOMIC AND POLITICAL SETTING

A. Recent Economic Developments

Stagnation and large external and internal imbalances have characterized the Jamaican economy for many years. After years of adverse external developments, especially the fall in world demand for and price of bauxite and alumina, and consequent economic decline, the Jamaican economy during the last year and a half has been the beneficiary of generally favorable external developments. The most important of these was the decline in international petroleum prices and international interest rates. The tourism sector has been booming, and non-traditional exports, both within and outside the free zone, have shown strong increases.

Internally, Jamaica's economic recovery is being fueled by private enterprises. A central feature of the GOJ's structural adjustment effort has been the reduction of the size of the public sector. The GOJ has accomplished this through a reduction of its role in the economy (the public sector deficit of 15 percent of GDP in 1981 has been reduced to 5.5 percent in 1987, and more than 25,000 public sector employees have been laid off), and through privatization.

The Jamaican unemployment rate, although still unacceptably high, has declined to twenty one percent, down from about twenty five percent last year. (The comparable figure by the US definition would be about 10-11 percent unemployment.) Underemployment in marginal occupations remains a widespread problem. Wage gains have been constrained by a ten percent per year guideline (introduced under the new IMF program) that has been honored in general, and the inflation rate of 7 to 8 percent for most items purchased by workers is well below that figure.

The current growth, however, has not yet succeeded in returning the economy to its production level of four years ago, let alone that of 15 years ago. As production moves toward levels previously obtained--and hopefully beyond--the volume of imported goods will also move upwards, widening the gap between merchandise imports and exports and placing additional pressure on the exchange rate and/or domestic credit constraints, until such a time as production can be reoriented toward nontraditional exports and tourism.

Despite the recognized need to restrain total demand for resources, both real and financial, the GOJ must address the serious problems of deteriorating services in the traditional public sector--basic health care, education, utilities, roads and law enforcement. In some cases, further postponement of expenditures may trigger a sharp reaction to the austerity measures that were tolerated when the economy was declining. Although some loosening of the public purse strings may now be possible, it is a delicate balancing act that could easily upset the underlying expansion. The GOJ is counting on the proceeds from its ambitious privatization program to fund a significant part of its capital expenditures in the social sectors.

B. USAID/Jamaica's Overall Strategy

USAID/Jamaica is currently developing a new CDSS to be reviewed in AID/W in the spring of 1988. Mission management, therefore, is carefully reviewing and rethinking its overall strategy in an era of declining development resources worldwide, especially for ESF, and in the face of the possibility of a new government in Jamaica, one perhaps less persuaded of the virtues of the private sector and free markets in promoting development than the present government.

Although a new strategy statement is being prepared, it can be safely said our strategy in Jamaica will continue to focus on overall policy reform support to get the most productive resources obtainable and to improve the efficiency of public sector agencies in their use of scarce resources, both real and monetary. The focus of this strategy will continue to be farmers, business people and workers: in short, those who will make the greatest economic contribution if they are encouraged to upgrade the quality of their resources. In past years, this has meant supporting GOJ efforts to establish a more market-oriented, private sector driven economy, primarily through ESF and the P.L. 480 Program. These efforts, as the following section will indicate, are now beginning to pay dividends in the form of higher growth rates and dwindling government involvement in everyday economic decisions. By any objective measure, this assistance to Jamaica has been well spent.

As a part of the CDSS process, USAID/Jamaica is reviewing the GOJ's Public Sector Investment Program (PSIP), which has been prepared in parallel and close coordination with the World Bank's Medium Term Economic Framework Program. In its PSIP the GOJ is proposing to invest around J$6.0 billion over JFY 1988/89 to 1990/91 with annual increases generally in line with economic growth. The donor community will be asked to confirm future aid programs at a special consultative group meeting in early December 1987.

The PSIP is targeted at (a) supporting directly productive activities and exports through investments in economic infrastructure such as airports, water and sewerage, power and communications to sustain the recent economic recovery and large expansion in tourism; and (b) rehabilitating social infrastructure, particularly in health and education, following their serious deterioration during the period of economic stabilization and adjustment.

An initial assessment indicates that the PSIP is consistent with a progressive reduction in the overall fiscal deficit and in Jamaica's external debt service, broad improvements in the balance of payments accounts, including a progressive rebuilding of international reserves, and limits on net domestic borrowing in line with monetary growth targets and with adequate credit availability to the private sector. The PSIP will need to be closely monitored throughout the program period in view of the uncertainty surrounding major resource flows, such as levels of donor assistance and the amount and timing of the proceeds from divestment of public assets. As the GOJ's privatization program unfolds, public sector investment must shift away from investment that should be undertaken by the private sector, and concentrate more on social and economic infrastructure.

C. The Political Setting and Structural Adjustment

The elections which must be called before March 1989, and which will probably be called before December 1988, will dominate the political and economic landscape in the coming year. The FY 1988 ESF is realistically the last opportunity, before national elections in Jamaica must be called, that the United States has to demonstrate significant hard cash support for the program of structural adjustment and policy reform embarked upon some seven years ago by Jamaica. Our investment in Jamaica since 1980 amounts to well over a half a billion dollars, and judging by the measures enacted to date, and the resulting decline in the role of the public sector, revitalization of the private sector and financial markets, the growth in hard currency, non-traditional exports, and the present economic recovery, it has been a good investment.

The program is not complete, however. The adjustments and reforms enacted must be consolidated and defended. The key measures are vigilance in reducing the fiscal deficit, and adjusting the exchange rate system, should domestic cost and price inflation exceed that prevailing in Jamaica's major trade partners and competitors. Additional changes need to be made, and the relatively few areas of the policy landscape that have not been materially reformed, such as exchange controls, need to be acted upon over the next few years.

ESF at the $45 million level would give USAID/Jamaica greater leverage to advocate the remaining measures that would round out the macroeconomic reform program embarked upon in late 1980. However, its greatest help would be in sustaining the present levels of economic growth and the real jobs that such growth generates, and thereby consolidating and defending the structural adjustments made to date. <u>Economic growth and employment are vital in persuading the electorate of the wisdom and utility of Jamaica's present course</u>. The growing acceptance of this course is indicated by recent polls that indicate that the present government may be closing the gap with the opposition, which strongly suggests that the benefits of the adjustment program are beginning to be realized after the initial costs and pain.

Realistically, USAID/Jamaica is well aware of the present ESF budget constraints worldwide. Since foreign exchange is the binding constraint on greater growth in Jamaica at present, any additional ESF support will be leveraged many fold as it buttresses the policy stance of a Jamaican government that has a proven track record of pursuing economic policy reforms that are often politically unpopular. To conserve scarce foreign exchange needed to pay for material imports and sustain present growth, Jamaica has rescheduled her commercial and bilateral debt, instituted a debt-equity swap program and negotiated additional assistance from the IMF and the World Bank, but these sources have been stretched to their institutionally regulated limits. What is needed now is continued balance of payment support from developed countries, especially the U.S. In the current Jamaican economic environment, this support feeds a growing private sector that is creating jobs and raising the real wages of working class Jamaicans. The combination of sustained balance of payment support from ESF funds, plus development assistance and food aid, will insure that the private sector is given the best possible opportunity to develop Jamaica's economic potential.

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III. The Policy Landscape.

A. Overview

As suggested above, Jamaica's policy response to date has been steady, responsible, and effective. The deep and sustained contractions in the latter part of the 1970s made it clear that the Jamaican economy required significant stabilization and structural adjustment if it were to be able to realize self sustaining growth and an infrastructure capable of supporting the improved standard of living aspired to by the population.

The positive economic response to more market-oriented policies adopted in the early 1980's was interrupted by the near collapse of the world alumina and bauxite market, which reduced Jamaica's foreign exchange earnings by well over U.S.$1 billion over the five year period 1982-1987.

Deprived of any maneuvering room by this loss of exports, the Jamaican government moved cautiously (in retrospect perhaps too cautiously) to implement bold economic measures. As a result, the reputation of the present government for undertaking meaningful policy changes suffered in some respects. This view was confirmed in the minds of many when the Prime Minister expressed his reservations about the conclusions of the Tripartite Mission and the implications of its recommendations for the pace of adjustment and the use of further exchange rate devaluations.

The irony is that the GOJ, in fact, subsequently adopted many of the recommendations of the Tripartite Mission. Overall, the most important policy measures introduced by the GOJ are to be found in the areas of comprehensive tax reform, reform of the trade and payments regime, privatization, deregulation of the agricultural commodity boards, and improved financial and monetary regulations. While the pace and substance of these measures has not always been ideal, the cumulative impact over the last seven years is a significant structural adjustment program that may be compared favorably with virtually any other developing country.

To its credit, the GOJ held to these measures during the difficult times in 1985 and early 1986 until the losses from mineral exports could be met through increased tourism, gains in non-traditional exports, and some welcome relief in the form of falling oil prices.

B. Structural Adjustment Program

The most important achievements of the GOJ's structural adjustment program may be summarized as follows.

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1. Comprehensive Tax Reform. In 1983, the GOJ undertook a comprehensive reform of its tax structure, with technical assistance provided under USAID/Jamaica's Board of Revenue Assistance project. The GOJ began implementation of this tax reform package in January 1986 when it introduced a revised personal income tax system, followed by a revised property tax system in February 1986. The personal income tax reforms have replaced a cumbersome system of punitive tax rates (the top marginal tax rate of 57 and a half percent was reached at an income level equivalent to US$1,700) with a flat tax rate of 33 and a third percent, eliminated numerous tax credits and brought perquisites into the calculation of tax liabilities. A complementary effort to broaden the tax base by bringing more people into the net through the improvement of tax administration has resulted both in the public perception of a fairer system and in increased tax revenues.

In January 1987, the GOJ introduced a revised corporate tax system which lowered the corporate rate to 33 and a third percent from 45 percent, and adjusted investment and depreciation allowances. The lower corporate taxes have increased corporate profits, which has helped, along with the privatizations through share offer, to stimulate the Stock Exchange, and encourage the revival of capital markets in Jamaica.

The last major item on the tax reform agenda is the enactment and implementation of a revised indirect value added tax system, to be known as the General Consumption Tax (GCT). The GCT will help to simplify the large range of excise duties, consumption duties, retail sales taxes and other selective taxes. Since the GCT is a part of the present ESF package, it is described in greater detail below.

2. The Trade and Foreign Exchange Regime and Export Promotion. In 1980, Jamaica was a typical case of a country suffering from an import substitution regime that clearly outlived its usefulness in fostering industrialization. Maintaining a lucrative domestic market for local manufacturers behind a wall of tariffs, quantitative restrictions and import licensing, the system had an invidious anti-export bias that was compounded by an overvalued exchange rate.

In 1980, there was a rigid import licensing system covering all imports, backed by some 364 specific quantitative restrictions which offered strong domestic protection. Throughout the 1980s the GOJ has worked steadily to liberalize this system. In April 1984, licensing requirements were removed on most raw materials and capital goods, and in April 1985 all but a very few of the remaining goods on the "restricted list" were freed from licensing requirements. Quantitative restrictions have been removed on all but 88 items, 32 of which are sensitive agricultural items. Of the remaining 56 items, few are for the specific protection of local

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industries. Nineteen of these items relate to explosives, weapons or military equipment, 21 relate to motor vehicles, with a remaining miscellaneous group of 16 items such as resins, chemicals and gases, vitamin preparations, antibiotics and apples.

The foreign exchange allocation mechanism has evolved gradually from a tightly controlled, restrictive fixed rate regime to a flexibly managed system. Through a variety of interim foreign exchange allocation systems, the exchange rate has been devalued from J$1.78=US$1.00 in 1980 to the present rate of J$5.50=US$1.00, with a stabilized auction system. This resulted in a depreciation in real effective terms of about 36 percent.

The GOJ recently implemented the first part of its Tariff Reform program, which will be phased in over four years. This program, which will attempt to flatten out the tariff structure while bringing more items into the net, is another important step in dismantling the old inefficient import substitution regime .

Under the first phase of the program, the total level of customs duties and stamp duties on imported goods has declined to no more than 68 percent. (This is to be compared with 200 percent levied on some items before the first phase.) By 1991 it is planned that the maximum levels of customs and stamp duties will decline to 5 percent for imported goods used by utilities, 10 percent for raw materials, 20 percent for capital goods, and 30 percent for consumer goods.

As an additional incentive to exports, the GOJ introduced in April 1987 a premium of 7.5 percent of export value for exports of manufactured goods to non-Caricom countries. During the past year the GOJ has instituted a number of important administrative reforms in customs, with a view to streamlining a service that has been repeatedly cited as an impediment to export promotion as well as foreign investment. For example, the number of forms required upon importation has been reduced from seven or eight to one. Staff has been reorganized, and new job descriptions created. Although the statutory low level of remuneration will remain a problem for several years to come, important gains in the form of improved efficiency should be realized from the Board of Revenue's computerization of the tax system, including customs.

The impact of the GOJ's policy reforms in these related areas is indicated to a large extent by the fact that manufactured exports from Jamaica to the US have grown from US$20 million in 1983 to a projected US$175 million in 1987, for an average annual growth rate of 72 percent. This is the most impressive performance of any LAC country in which AID operates.

USAID/J has buttressed its ongoing policy dialogue aimed at encouraging exports with specific DA projects supportive of policy dialogue and designed to promote export earnings, especially of non-traditional goods. The Board of Revenue Assistance Project is designed to assist the GOJ in its program to comprehensively reform the tax system along lines that fit its objective of achieving stable, economic growth through a private sector led, export oriented, development program. The Technical Consultations and Training Grant (TC&TG) Project assists the GOJ and the Jamaican private sector through a variety of sub-project activities to alleviate constraints to economically productive activity, make more effective use of capital resources, attract new investment and promote export development. The Crop Diversification and Irrigation Project seeks through various means, including policy dialogue, to promote private enterprise agricultural investment by local and/or foreign investors, and to promote non-traditional agricultural exports.

3. Privatization. The GOJ's actions to date and its plans for the near future make it clear that privatization is a key part of its program to tackle the related problems of under-performing public sector assets, over-burdened public budgets, and heavy indebtedness.

The privatization of the National Commercial Bank (NCB) by the GOJ in December 1986 represents a signal achievement. The share offer involved selling 51 percent of the stock of the NCB (30.6 million shares) for a total of J$90 million. It was oversubscribed by 175 percent with just over 30,000 applications. In all, a total of 84 million shares valuing J$250 million were applied for. Previously, the largest number of persons ever to have supported a share issue in Jamaica was 10,000.

The NCB share offer demonstrated that a public share offer could be used as a vehicle for selling the larger state owned enterprises. It also showed that this type of privatization could help to build a stronger and deeper capital market in Jamaica and widen the number of shareholders.

The successful share offer of the National Commercial Bank (NCB) in December 1986 lent credibility and visibility to privatization, which the GOJ is translating into a major privatization program in the current Jamaican fiscal year. This program includes the privatization by share offer of over 70 percent of the Caribbean Cement Company (CCC), completed in June 1987 with a total J dollar volume of shares twice that of the NCB. In all, 91 million shares were sold at a price of J$2.00 each, for a total of J$182 million. Over 24,000 buyers applied for and received the shares, including 99 percent of the employees of the company.

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The GOJ also has an active program to sell 13 government owned hotels with a total of 3,700 rooms, and has sold to Cable and Wireless Limited US$40 million worth of shares, thereby increasing their interest to 39 percent, of the newly formed holding company for the Jamaica Telephone Company and Jamaica International Telecommunications (JAMINTEL).

In addition to this program, the GOJ is completing its program of 30 smaller enterprises for privatization through its Divestment Committee, of which 10 have been privatized and another 10 are nearing completion. The GOJ has privatized 57,000 acres on 36 properties through the Agro 21 lease program. The GOJ has also undertaken an important set of miscellaneous privatizations through many ministries and agencies employing management contracts, leases, user fees and closures. For example, in September 1987 the GOJ divested the housekeeping, portering, and garbage and sanitation services in three Kingston public hospitals to the private sector, with an estimated savings of J$4.5 million a year. This entailed laying off some 500 public sector employees just a year before elections.

4. Monitoring of Public Sector Enterprises. Income statements of 21 Selected Public Enterprises are now included in the GOJ's budget. This is a part of the GOJ's overall effort in collaboration with the World Bank to improve the monitoring and control of the large public enterprises, improve the operating balances of a group of targeted public enterprises, eliminate intragovernmental arrears, and reduce the size and scope of the public sector. Through the introduction of a number of pricing measures, including an increase in tariffs for water, sewerage, electricity, telephone, basic foods and petroleum products, the GOJ has improved the consolidated operating surplus of these enterprises from J$5 million in 1980 to over J$500 million in 1987. This introduction of cost related user fees, itself a form of privatization, has played an important part in the improved position of Jamaica's public finances.

These efforts are an important complementary activity to the GOJ's privatization program. Clearly, not every public sector enterprise is a viable candidate for privatization. Many others are, but realistically face a wait given the absorptive capacity of the financial markets, and the public acceptance of and technical capacity to manage privatizations well. USAID/Jamaica projects a five year horizon featuring a major privatization or two a year through share offer. Variables include the overall health of equity markets worldwide, political uncertainties in Jamaica, and the durability of Jamaica's economic recovery. During the interim, one clear benefit is that the GOJ is introducing performance budgeting, improved financial management systems, and operating results: the steps necessary for privatization are also necessary for sound management.

5. Monetary and Financial Policies. The GOJ has taken important measures to reform financial policies and free monetary policy from its previous subordinate role to fiscal policy and to remove the bias against credit to the private sector.

In late 1985, the BOJ initiated the issuance of certificates of deposit (CDs) to act as the main instrument of an active open market policy to fine tune domestic liquidity. This has been further supplemented by the reinstatement of a rediscounting window in the BOJ in May 1986.

In March 1986, the GOJ approved a revision in the banking legislation that clarified the Central Bank's financial policy mandate and strengthened its supervisory functions.

The overdraft ceiling of the government accounts was reduced to 15 percent of government revenues in March 1986. Previously the government was permitted to automatically draw up to 30 percent of the year's projected fiscal revenue under the overdraft facility. This resulted in excessive money creation, which led to inflation and loss of foreign exchange reserves. In accordance with the recent agreement between Jamaica and the IMF, the government has further restricted the use of the overdraft facility.

The practice of holding interest-free reserves with the BOJ was costly to the commercial banks and contributed to the high spreads between deposit and credit interest rates. In 1986, the government approved the payment of interest on part of the cash reserves held with the BOJ. Three percentage points of the 20 percent cash reserve received an interest payment at market rates. The BOJ is extending the payment of interest to six percentage points of the cash reserve requirement.

The GOJ phased out the liquid asset ratio as a tool of monetary policy, reducing it from 48 percent to 35 percent, including a non-cash portion of 15 percent, as of March 31, 1987. As a result, the smaller amounts of relatively low yielding treasury bills in the liquid asset requirement have enabled the banks to reduce interest rates on private sector loans.

6. The Public Sector Investment Program. The GOJ has made a major effort to improve the quality of the preparation, execution and monitoring of the public sector investment program (PSIP). The main features of the revisions to the PSIP system have been the establishment of a rolling three-year investment program, a greater balance in the program with the emphasis being placed on economic infrastructure and support for the export effort, and the introduction of a monitoring system, which produces quarterly progress reports. In May 1987 responsibility for preparing the PSIP was moved from the Planning Institute of Jamaica to the Budget Division of the Ministry of Finance and Planning to closely integrate the PSIP into the budget process.

7. Liberalization of the Agricultural Commodity Boards. A fairly recent study of coffee, cocoa, citrus, coconuts, bananas and sugar in Jamaica demonstrated that commodity board pricing policies--compounded by an overvalued Jamaican dollar throughout most of the 1970s and early 1980s--played a significant role in penalizing these exports. Furthermore, the study showed that board policies appeared to be inefficient in either maximizing profits or foreign exchange. At the same time, the study showed that contrary to the assumptions of board officials, export crop farmers do respond positively to prices, and that the failure to recognize this led to the counterproductive policies of the commodity boards with adverse consequences for the country's export performance.

Since 1980 the GOJ has moved steadily to liberalize the agricultural commodity boards, a theme reverberating through past ESF agreements.

In sugar, the GOJ has been implementing a major reorganization of the state owned sugar industry as part of its broader economic adjustment efforts. A major focus of the program is to concentrate sugar production at two factories--Frome and Monymusk--and to stop production at the remaining six factories. Management contracts have been signed with the British sugar producer Tate and Lyle to run these two sugar factories.

As for bananas, Jamaica is in a position to benefit from a generous preferential access of up to 150,000 metric tons of exports to the U.K., but under the dead hand of the bureaucracy of the state controlled Banana Company and an overvalued currency, exports had dropped relentlessly over two decades from more than 200,000 metric tons exported to 11,000 metric tons in 1984, as the industry tottered on the verge of collapse. The GOJ finally abolished the Banana Company in 1984 and permitted growers to own and operate their own marketing board. The banana industry has rebounded, and exports should reach 30,000 metric tons this year. Industry experts predict significantly greater growth in years to come based on plantings now underway.

Progress with coffee, cocoa, citrus, and pimento has been less spectacular, but important results have been achieved. The monopsony powers of the commodity boards for coffee, cocoa, citrus, and pimento have been formally abolished. Management audits for these boards have been completed and management improvements implemented.

8. Fiscal and Monetary Measures. In recent years it has been the short-run, demand management side of the economy which has been insufficient, and threatened the gains of the supply side structural adjustments. The chief problem had been the large overall public sector deficits and the attendant strains that this has placed on the financial system and the balance of payments.

At the time of last year's PAAD, it was not clear that Jamaica would be successful in negotiating a new IMF program. However, in late 1986, agreement was finally reached on a new Stand-by to run from March 1987 to March 1988. The new Stand-by addresses the need for further fiscal adjustment and monetary policy reforms. It also contemplates exchange rate adjustment, should the planned increase in foreign reserves not materialize, and limits wage increases and inflation to protect competitiveness. It supports a further reduction in the overall fiscal deficit to 5.4 percent of GDP in Jamaican fiscal year 1987/88. In addition, monetary policy is to be closely monitored, with a programmed growth in broad money of 10 percent. The current account deficit of the balance of payments is targeted to improve further, with a deficit of about 6.3 percent of GDP in the current Jamaican fiscal year.

9. Debt-Equity Swaps. Prime Minister Seaga formally announced the establishment of Jamaica's Debt Conversion Program on July 28, 1987. The program is aimed at converting over a five year period US$200 million, or about half of Jamaica's external debt held by commercial banks, into equity investment in new ventures, preferably in the priority areas of tourism and factory construction. The Prime Minister also announced that the first transaction under the program had been approved: Hanes Printables has offered to purchase, at a discount still being negotiated, a US $1.5 million Jamaica debt obligation held by Citibank. The GOJ is currently considering debt equity swaps for one of the hotels being privatized, and for the construction of a new hotel.

IV. THE ECONOMY IN JFY 1987/88 AND BEYOND: THE ROLE OF ESF

As indicated above, Jamaica is currently experiencing the best period of real economic growth in more than a decade, fueled largely by the surge in tourist visitors and the increased output of the nontraditional export sector. Inflation is expected to be no higher than 8 percent in the current Jamaican fiscal year. In the immediate future Jamaica's growth performance is expected to continue with growth of about 4 percent in JFY 1987/88, 4 percent in JFY 1988/89 and to remain at about 3.5 percent for several years thereafter.

A. Balance of Payments and the Exchange Rate

The most important of the recent external developments affecting the balance of payments, as mentioned above, was the decline in international petroleum prices which reduced the country's non-bauxite petroleum imports to US $137 million in JFY 1986/87 from US$225 million the previous year. However, oil prices have been slowly but steadily rising in the current fiscal year. The impact of oil prices may be gauged from the fact that Jamaica consumes roughly 8 million barrels of oil a year. A rise in the price of oil from US$15 to $20 a barrel would therefore lead to a increased charge against the balance of payments almost equal to the requested level of ESF of $45 million during our present fiscal year.

In JFY 1986/87 a very strong tourist season resulted in an increase in tourism receipts of $100 million, and the boom is continuing well into this fiscal year. Non-traditional exports, both within and outside the free port, have shown very strong increases.

The authorities' policy of keeping constant the exchange value of the Jamaican dollar against the US dollar was facilitated by the depreciation of the US dollar against other leading currencies. At the same time, relatively high real domestic interest rates encouraged private capital inflows that offset a larger than expected reduction in net foreign financing from official sources. Some of the inflows may also be explained by the purchase of real estate on the North Coast of Jamaica, reflecting the improved prospects of tourism.

After several years of austerity, the Jamaican economy is restocking with new materials, capital goods, and to a lesser extent consumer needs. Imports currently are running at about one third higher than last year despite very favorable prices in world markets for many staple imports (e.g. food) and fairly moderate increases in fuel prices.

The more rapid pace of GDP growth in 1987/88 and the accompanying rise in imports is resulting in a widening of the current account deficit of the balance of payments. Again, however, through June private capital inflows have financed a significant part of the import expansion.

B. The External Debt

Against this brighter balance of payments and growth background looms Jamaica's overhang of external debt. External debt affects the balance of payments directly since interest payments are a charge against the "factor services" of the current account, and principal payments are a charge against the capital account. The debt issue, however, has ramifications beyond the accounting framework of the balance of payments, and already figures as one of the principal landmarks in the political and economic setting internally and externally. This situation is not likely to change in the short run.

Jamaica's total external debt should stand at approximately US$3.8 billion at the end of its current fiscal year, and more than half of it has been contracted since 1981. This debt buildup has been an integral part of the strategy supported by bilateral and multilateral donors to finance infrastructure, shift the economy toward production for export, broaden the nation's economic base, and relocate the principal responsibility for real growth and employment to the private sector.

The consequence of the large increase in Jamaica's external debt has been a surge in debt service payments. In general the increase in debt payments has not been supported by an added capacity to service that debt, at least in the short run. As a result, the debt service burden has become a constraint on growth prospects.

Before rescheduling, the debt service burden would reach about 52 percent of exports of goods and non-factor services in the current Jamaican fiscal year. After rescheduling, this percentage drops to about 39 percent. (See Table I in the following section.) While the latter figure is no doubt an improvement, it still constitutes a serious drag on growth prospects.

A disaggregation of the total debt of Jamaica by creditor reveals a debt structure different from many countries. While bilateral and multilateral lenders account for about 42 and 39 percent, respectively, of the total external debt, only US$400 million, or 12 percent, is held by foreign commercial banks. The remaining 7 percent of the debt is held by "others," including suppliers' credit.

Rescheduling has been the basic strategy of the GOJ for dealing with its debt problem. On March 5, 1987, the Paris Club agreed to reschedule Jamaica's external obligations to the bilateral creditors for debt contracted before October 1983 and falling due in the period through March 1988.

On May 11, 1987, the agreement for Jamaica's rescheduling with commercial banks became effective as it was signed by 106 creditors. The commercial banks agreed to reschedule all principal payments falling due in the period from April 1, 1985 through March 31, 1990. A total of US$185.2 million, representing 1985/86 and 1986/87 maturities, was rescheduled over a period of 10 1/2 years with three years grace. A total of US $180.4 million, representing maturities for 1987/88 and beyond, was rescheduled over 12 1/2 years with four years grace.

The lower section of Table I illustrates Jamaica's debt servicing profile. The table demonstrates that over time, growth will help to ease the overall debt burden as a percentage of GDP, with total debt growing less than GDP. The debt service ratio also demonstrates a declining trend, although it is still a considerable charge on the balance of payments.

Clearly, in respect of its external debt, Jamaica has had to follow the strategy of "muddling through." To be sure, it carries heavy costs, both in terms of the additional financial charges that are levied and in particular, the heavy demand on high level management time to negotiate reschedulings. Nevertheless, it buys the country time to consolidate the gains of structural adjustment in anticipation of the returns from a retooled, reoriented economy, and of the period when foreign exchange will be a less binding constraint upon growth.

The GOJ's decision to implement a debt-equity swap program in June of this year, as described above, represents an important new initiative in tackling several related problems. Clearly, such a program cannot be a panacea, especially in the light of the relatively small amount of commercial debt as a percentage of total external debt. Nevertheless, it represents the opportunity to simultaneously reduce the outflow of foreign exchange on debt service and reduce the cost of the investment for the foreign investors who have often been put off in the past by their perceptions of political and economic risk in Jamaica. Perhaps most importantly, the debt-equity swap program demonstrates the resolve of the GOJ to take the initiative as well as some risk in dealing with its economic problems.

In time, the multilateral debt may well prove to be the most contentious. The multilaterals, of course, do not reschedule or refinance their debts, owing to their need to maintain their reputations in financial markets. It is the policy of the IMF and the World Bank to reduce their exposure in Jamaica. Since the brunt of debt servicing in the medium term is owed to the IMF, its policies carry the most weight. As of June 30, 1987, Jamaica's outstanding use of Fund credit stood at 362 percent of its quota of SDR 145.5 million, including the equivalent of 80 percent of quota under the compensatory financing facility. Because repurchases exceed purchases during the remaining period of the stand-by arrangement, total Fund credit outstanding to Jamaica would decline to 305 percent of quota by the end of the arrangement.

As Table I illustrates, the IMF's desire to reduce its exposure can be accomodated, but this means as a practical matter that the IMF will be taking out considerably more resources from Jamaica than it is putting in. As unfortunate as this is, USAID/Jamaica believes that it is consistent with policies that the IMF must pursue in general to ensure its continued sound financial position. The only question is the pace of repayment. It does increase the pressure on the bilateral donors, such as the United States, to avoid a simultaneous contraction of resource inflows.

The bilateral debt will continue to present the GOJ with its greatest degree of latitude in managing the debt. For pre-October 1983 debt, the amounts rescheduled under the recent Paris Club agreements were equivalent to 100 percent of principal and 85 percent of interest. The debt relief resulting from this arrangement was equivalent to US$54 million in 1986/87 and US$63 million in 1987/88.

In general, the bilaterals are under less pressure than the commercial or multilateral lenders to maintain the capital value of their loans. But, the bilaterals have so far missed the opportunity to respond creatively to the debt problems and in fact have perpetuated the passive but costly inertia of the present debt infrastructure. In the case of the United States, this passivity has as a consequence the danger that our legacy of generous financial assistance could become debt burden rather than development, and thus inimical to our larger foreign policy objectives. Increasingly, the objectives in promoting bilateral relations through concessional debt are coming into conflict with traditional approaches to stewardship of the resulting loan portfolio.

USAID/Jamaica believes that it is in the interest of bilateral creditors to explore, and in fact will be encouraging this in the upcoming Consultative Group Meeting, the conversion of debt into local currency development equity.

C. The Role of ESF in the Balance of Payments and Growth

The role of ESF in exports, imports and the overall balance are illustrated in Table I. These figures for past, present and future Jamaican fiscal years are presented in the framework of USAID/Jamaica's macroeconomic model. This model combines estimated relationships between growth in the economy and real investment as well as growth of import demand and various economic aggregates

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TABLE 1

USAID/JAMAICA MACROECONOMIC MODEL
KEY ASSUMPTIONS
ESF Level: $25 Million

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Real GDP Growth %	-1.4	-4.0	3.5	4.0	4.0	3.5	3.5
GDP Current (J$)	9,856	12,014	14,398	16,172	17,828	19,375	21,056
GDP Curr.(US$Mn)	2,292	2,184	2,618	2,940	3,241	3,523	3,828
X-Rate (J$/US$)	4.3	5.5	5.5	5.5	5.5	5.5	5.5
Capital:Output Ratio			6.5	5.8	5.2	5.0	4.8
Inflation (GDP Def.)		22%	16%	8%	6%	5%	5%
Cost of oil/barrel			$15.0	$19.0	$20.0	$20.0	$20.0
AID Resources				90.0	90.0	90.0	90.0
of which, ESF				25.0	25.0	25.0	25.0

Summary Balance of Payments

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	(US$ Million, current prices)						
CURRENT ACCOUNT:							
Export Goods	673	539	562	690	774	822	869
Import Goods	1,221	1,026	1,036	1,269	1,362	1,457	1,554
Trade Bal	-548	-486	-475	-579	-588	-635	-685
NonFac Serv (net)	388	397	520	631	712	774	845
Fac Serv.(net)	-239	-304	-325	-377	-403	-409	-406
Transfers							
private (net)	110	117	123	120	126	127	130
Current Balance	-290	-286	-158	-205	-152	-142	-116
CAPITAL ACCOUNT:							
Public(net)	567	227	37	281	50	25	-59
MLT gross	438	443	295	545	332	340	325
of which, AID				90	90	90	90
of which, ESF				25	25	25	25
Rescheduling	535	232	315	201	153	127	63
Amortization	406	448	573	465	415	441	446
Pvt. Capital(net)	175	95	151	114	120	120	120
BALANCE OF PAYMENT	452	36	30	190	47	3	51
(- = decrease in NIR)							
IMF NIR TARGET			40	190			
IMF (net)	39	-20	-87	-103	-125	-65	-18
Purchases	106	78	61	72	70	70	70
Repurchases	67	97	148	175	195	135	88
ARREARS	-232	-15	0	0	0	0	0
ADDITIONAL							
FINANCING REQUIRED				0	77	62	72
Debt Service Ratio	53.0%	64.2%	67.7%	52.7%	46.0%	44.5%	41.3%
Debt Service Ratio							
After Rescheduling	11.8%	44.7%	43.7%	40.0%	36.7%	37.2%	33.7%
Tot. Pub. Ext Debt	$3,272	$3,499	$3,536	$3,817	$3,896	$3,921	$3,863
ToT. Pu.E.Debt/GDP	142.7%	160.2%	135.1%	129.8%	120.2%	111.3%	100.9%

including the real exchange rate, estimates of Jamaica's export capacity, projections of fiscal and monetary behavior, estimates of debt service obligations and projected disbursements, and projections of commodity prices and international interest rates. The result is not so much a forecast as a test of the internal consistency of various growth scenarios.

The starting point for the model is the estimates of the real growth in output that is thought to be desirable both during the present year, and in the medium term. (The latter will be developed in greater detail in our upcoming CDSS.) Present estimates by the GOJ and USAID, and concurred with by the World Bank and IMF, indicate that a real growth rate of 4 percent is likely for JFY 1987/88, as well as subsequent years. Since this fiscal year is nearly two thirds completed, this estimate can be made with some confidence.

This 4 percent growth is made with the assumption of ESF inflows of US$25 million, which in essence represents a straightlining of last year's level. ESF inflows at this level, together with other inflows from exports on the current account and net external financing on the capital account are consistent with the import requirements needed for a 4 percent rate of growth while meeting international reserve targets under the IMF's program.

If ESF levels were to fall below this level (e.g. to $15 million) and the growth target were to remain at 4 percent, then the levels of imports of capital goods needed to sustain investment directly, and of the imported raw materials and consumption goods implied by higher production and incomes, would generate unsustainable balance of payments deficits.

Since the financing gap must be closed ex poste the GOJ would have to enact tighter fiscal and monetary measures to contain aggregate demand. Iterations with the model suggest that a $15 million ESF level, with other factors remaining constant, would be consistent with a growth rate of about 3.3 percent.

On the other hand, if ESF levels were at $45 million, the level cited in the ABS, then the Jamaican economy would have much more latitude to grow before overheating, since the foreign exchange constraint would be eased. Iterations with the model indicate that a $45 million ESF level, again other factors remaining constant, would be consistent with a real growth rate of 5.3 percent.

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TABLE

USAID/JAMAICA MACROECONOMIC MODEL
KEY ASSUMPTIONS
ESF Level: $45 Million

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Real GDP Growth %	-1.4	-4.0	3.5	5.3	4.0	3.5	3.5
GDP Current (J$)	9,856	12,014	14,398	16,374	18,051	19,617	21,319
GDP Curr.(US$Mn)	2,292	2,184	2,618	2,977	3,282	3,567	3,876
X-Rate (J$/US$)	4.3	5.5	5.5	5.5	5.5	5.5	5.5
Capital:Output Ratio			6.5	5.8	5.2	5.0	4.8
Inflation (GDP Def.)		22%	16%	8%	6%	5%	5%
Cost of oil/barrel			$15.0	$19.0	$20.0	$20.0	$20.0
AID Resources				110.0	110.0	110.0	110.0
of which, Es				45.0	45.0	45.0	45.0

Summary Balance of Payments

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	(US$ Million, current prices)						
CURRENT ACCOUNT:							
Export Goods	673	539	562	690	774	822	869
Import Goods	1,221	1,026	1,036	1,287	1,382	1,478	1,578
Trade Bal	-548	-486	-475	-597	-608	-656	-709
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Fac Serv.(net)	-239	-304	-325	-377	-403	-409	-406
Transfers							
private (net)	110	117	123	120	126	127	130
Current Balance	-290	-266	-158	-224	-173	-165	-140
CAPITAL ACCOUNT:							
Public(net)	567	227	37	300	100	45	-38
MLT gross	438	443	295	565	352	360	345
of which, AID				110	110	110	110
of which, ESF				45	45	45	45
Rescheduling	535	232	315	200	165	127	63
Amortization	406	448	573	465	416	441	446
Pvt. Capital(net)	175	95	151	114	120	120	120
BALANCE OF PAYMENT	452	36	30	189	47	0	-58
(- = decrease in NIR)							
IMF NIR TARGET			40	190			
IMF (net)	39	-20	-87	-103	-125	-65	-18
Purchases	106	75	61	72	70	70	70
Repurchases	67	97	148	175	195	135	88
ARREARS	-232	-15	0	0	0	0	0
ADDITIONAL							
FINANCING REQUIRED				0	73	65	76
Debt Service Ratio	53.0%	64.2%	67.7%	52.7%	46.0%	44.5%	41.8%
Debt Service Ratio							
After Rescheduling	11.8%	44.7%	43.7%	40.1%	36.7%	37.2%	38.7%
Tot. Pub. Ext Debt	$3,272	$3,499	$3,536	$3,936	$3,935	$3,984	$3,942
ToT. Pu.E.Debt/GDP	142.7%	160.2%	135.1%	125.9%	119.9%	111.6%	101.7%

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Moreover, these rates of growth have implications for employment. The USAID/Jamaica model links rates of growth in output with job creation. These various factors may be presented as follows.

ESF Levels*	Real GDP Growth	Incremental Employment
$0	2.3%	--
$15 million	3.3%	8,160
$25 million	4.0%	13,870
$45 million	5.3%	24,480

(*N.B. This assumes other resource flows remain constant, including other types of AID assistance, and the higher ESF levels are sustained in future years.)

It is the considered opinion of the Mission that at a minimum, growth and employment levels associated with $45 million will be needed to validate the government's present program of structural adjustment and stabilization.

The unfinanced gaps associated with targeted growth rates in the out years will form a part of the discussion with donors in the upcoming Consultative Group Meetings.

D. Fiscal and Monetary Measures

The general improvement in Jamaica's balance of payments situation has been complemented by reasonable fiscal and monetary policies during the last 18 months. As the GOJ pursues its policy reforms in the fiscal and monetary areas, it has been careful to ensure that they are consistent with its attempts to stabilize the exchange rate at J$5.5 = US$1.0. Efforts have been helped by a falling US dollar, lower Jamaican internal inflation, and inflows of private capital.

As described above, the government's policy is to develop the framework necessary for a greater separation of monetary and fiscal policy. This should eliminate distortions that remain in the credit allocation and interest rate structure, and lead to greater sophistication and efficiency of the country's capital market.

The new IMF program came in the wake of a year of good performance in economic management on the part of the GOJ, particularly in the management of the fiscal accounts. In almost every category the fiscal accounts for JFY 1986/87 were substantially improved over those of the previous three years. The overall public sector deficit, including the losses of the Bank of Jamaica, was reduced from J$1,654 million (13.8 percent of GDP) in 1985/86 to J$799 million (5.5 percent of GDP) in 1986/87, compared with a progarm target of J$1,177 million (8.1 percent of GDP). The most important contributing factor to that outcome was the GOJ's decision to maintain domestic petroleum prices constant in the face of falling import prices. As a result, receipts from consumption duty increased by 2 percent of GDP. In addition, increased profits of Petrojam were an important, but by no means only contributor to a GDP improvement of 3 percent in the position of state enterprises. In addition to higher taxes and profits resulting from the sale of petroleum, receipts from income and profits taxes increased by 0.9 percent of GDP. Although some part of this improvement appears to have resulted from the overall increase in economic activity, a more important contributor seems to have been improved tax administration and tax compliance resulting from the comprehensive reform of the tax system, for which a significant part of the funding has been provided by USAID/Jamaica's Board of Revenue Assistance Project.

Reliable expenditure figures for this fiscal year are slow coming in, but the consolidated public sector, including the losses of the Bank of Jamaica, showed a surplus of J$21 million in the first quarter of 1987/88, compared with a projected deficit of J$117 million in the IMF program. Tax revenue was some 15 percent in excess of projections resulting almost entirely from larger collections of the PAYE income tax, the withholding tax on interest income, and import duties. In addition, the foreign proceeds generated by the divestment of selected state enterprises were some J$30 million more than expected.

E. Monetary Developments

With the faster growth in economic activity than initially projected, the expansion in bank credit to the private sector continued to accelerate on a 12 month basis from 21 percent at the end of March 1987 to 33 percent at the end of June 1987. This credit expansion appears largely to have been in support of new investment projects--mainly in construction and tourism. At the same time, the growth in private financial savings continued to moderate, although less rapidly than had been expected. The 12 month growth in bank liabilities to the private sector fell from 23 percent at end March to 20 percent at end June.

With the recovery of economic activity proceeding at a stronger than anticipated pace, and led by the growth in non-traditional exports and tourist receipts, the recovery process has spurred a sharp acceleration in the growth of total bank credit and imports. In order to ensure that the price and external payments objectives of the IMF program are observed, the GOJ has indicated that it intends to implement monetary and fiscal policies that will moderate the growth in overall demand. During the next few months, the Bank of Jamaica will increase its placements of certificates of deposits and treasury bills with a view to absorbing liquidity from the banking system. For this purpose, it is prepared to allow a rise in interest rates, if necessary. Of course, as indicated above, the severity with which they will have to tighten is inversely related to the amounts of ESF forthcoming.

V. NEW POLICY DIRECTIONS UNDER THE FY 1988 ESF AGREEMENT

The following section presents a discussion of the policy measures currently under negotiation between USAID/Jamaica and the GOJ. For expositional purposes, the policy measures are divided into three groups representing low, medium and high cases corresponding to ESF levels of $15 million, $25 million and $45 million respectively. The low case represents the "core" of our policy program. The increments in policy reform under the medium and high cases represent items that USAID/Jamaica believes the GOJ would be able to undertake with the greater latitude represented by increments in ESF.

Of course, in the negotiations, USAID/Jamaica is endeavoring to secure the greatest number of policy reforms, independently of ESF levels, that we believe is consistent with a sound development framework.

We are keenly aware that, as discussed in Section II, the pending elections will naturally dominate Jamaica's economic and political setting. The present government has repeatedly taken a beating in the polls for the unpopular policy measures, such as the devaluation of the Jamaica dollar, that it has introduced in the recent past. However, now that some of these measures are contributing to renewed economic vigor, the present government is regaining some ground with the electorate. Its reluctance to adopt additional measures which might prove unpopular at this juncture, though, reflects an informed judgement about political realities in a democracy.

The policy measures that represent this sort of political difficulties for the present government are therefore grouped with the higher ESF scenarios, since their risky nature makes it unlikely that the GOJ would wish to implement them at this time in the absence of additional balance of payments support that would engender the additional growth needed to make them palatable to the electorate.

It is important to note that our request for ESF at levels of $45 million rests on defending and consolidating, through sustained high levels of growth and employment, the impressive structural adjustments, policy reforms and stabilization measures adopted and implemented by the GOJ, rather than in securing incremental policy reforms described below.

A. The Core Policy Reforms

1. New Privatizations:

i. The Jamaica Telephone Company-JAMINTEL. The sale of the shares in the recently merged Jamaica Telephone Company-JAMINTEL would be an especially interesting offer. The combined company could be worth an estimated US$200 million. Through two recent purchases of shares, Cable and Wireless now owns 39 percent of the holding company. The most recent sale was for 19 percent of the shares at a cost of US $40 million. If the remainder, approximately US$120 million, were to be privatized it would clearly exceed the absorptive capacity of the local financial markets.

The GOJ has considered various possibilities for continuing the privatization process with this enterprise. At these initial stages of planning, thought has been given to a simultaneous share offer in both the United States and the United Kingdom, targeted to the extent possible at Jamaican residents of these two countries. This would also enable the GOJ to earn much needed foreign exchange. Unfortunately, this promising prospect had to be scaled back with the cloud hanging over the international equities markets after "Black Monday." The GOJ now plans to offer an additional 10 percent of the shares for sale in the United Kingdom to Jamaican nationals. They have secured an agreement from Cable and Wireless to purchase any unsold shares.

ii. The National Commercial Bank (NCB) and the Caribbean Cement Company (CCC). Discussions with the GOJ and USAID/Jamaica indicate that the GOJ will sell its remaining shares in the NCB and CCC during the coming year. The exact timing must depend upon local market conditions for equities, which obviously has been affected by US financial market developments.

iii. The Divestment Committee. USAID/Jamaica is seeking to bring to completion as many as possible of the privatizations managed by the Divestment Secretariat. Discussions with the GOJ indicate that it should be technically feasible to complete the divestment of the following companies:

By December 31, 1987:

- Cornwall Dairy Development Limited
- Zero Processing and Storage Limited
- Jamaica Gypsum and Quarries Limited
- West Indies Pulp and Paper Limited
- Serge Island Dairies Limited
- Cocoa Industry Board (Properties)
- Port Antonio Marina
- Hellshire Fish Farms Limited

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By March 31, 1988:

Jamaica Fisheries Complex Limited
Trans-Jamaican Airlines Limited
Bath Fountain Hotel
Milk River Bath
Ariguanabo Mills
National Cassava Products Limited
Agricultural Mechanical Services
Fort Clarence Beach
Jamaica Frozen Foods Limited
Palisadoes Beach Complex
Highgate Foods Limited

iv. Health Care. USAID will also encourage the extension of privatization in public hospitals. As noted above, the GOJ contracted out to the private sector the housekeeping, portering, and garbage and sanitation services in three Kingston public hospitals in September 1987. The GOJ plans to extend the process of contracting out to additional hospitals in 1988. They also plan to contract out for catering services for the Kingston hospitals initially.

v. Irrigation Fee Reform. USAID/Jamaica is negotiating with the GOJ for enactment of legislation implementing the decision to permit the National Irrigation Commission to set fees, collect them, and spend them on operations and maintenance without referral to government.

2. Strengthening of Capital Market Institutions. The capital markets in Jamaica have been in the doldrums since the early 1970'S, largely owing to adverse government policies. Companies in Jamaica are highly leveraged and in need of more equity which the financial markets have not been able to provide. The fiscal system in Jamaica has both encouraged companies to use credit rather than equity and discouraged individuals from making equity investments. Companies have been reluctant to go public because enterprises quoted on the stock exchange tended to be more carefully scrutinized by the tax authorities than other firms.

The broad based tax reform program publicly introduced in 1985 and enacted in 1986 has helped to redress the bias against equity by reducing corporate taxes, and introducing a withholding tax on interest payments. The government has also eliminated the tax on stock exchange transactions.

The privatizations of the large scale enterprises have provided a major stimulus to Jamaica's capital markets and stock exchange. The privatizations of Seprod, NCB and CCC by share offer increased the total stock market capitalization by 20 percent to a total of over US$700 million, and provided a model for the recent share offer by Hardware and Lumber, a privately held concern, which was only the fourth public share offer in Jamaica since 1973.

These share offers, important in their own right as a means of transferring assets of the GOJ to the private sector, have also acted as a vehicle for expansion of the equity market and the volume of stock market transactions.

Nonetheless, the Jamaica Stock Exchange is in need of a number of changes if it is to play a dynamic role in the financial sector and stimulate equity investments. Its membership needs to be broadened and it should become more autonomous, although under an improved regulatory environment. The GOJ has initiated a study to analyse the operations of the securities market and formulate appropriate recommendations for these operations, which will provide the basis for preparing drafting instructions for a proposed Securities Act. This study should be completed by the end of December 1987. The Government is in the process of establishing, as an interim measure, a stock market inspection unit. The Government has indicated an interest in acquiring technical assistance for developing the unit's operational procedures, staffing and training requirements, and temporary regulations concerning disclosure, investor protection and prevention of insider trading.

USAID/Jamaica's negotiations indicate that new securities legislation should be ready for enactment in early 1988.

The GOJ is also seeking additional ways to stimulate and broaden the capital market. It intends to increase the number of financial instruments available to institutional and individual investors. In JFY 1988/89 the GOJ will issue at least two new local debt instruments. One will be an instrument of 180 to 360 days maturity and the other a medium term bond, with variable interest rates.

3. Debt-Equity Swaps. The GOJ has published debt-equity swap rules. It has approved the first application. However, the transaction has not been brought to completion, i.e. the debt has not been redeemed for local currency by the Bank of Jamaica. USAID will seek to encourage completion of at least two major debt-equity swap transactions by early March 1987.

4. Subsidies. As indicated in an earlier section on the monitoring of public sector enterprises, the GOJ has taken dramatic steps to reduce subsidies by introducing cost related user fees. An important additional step would be to more explicitly identify subsidies.

B. The Medium Case Policy Reforms

1. The General Consumption Tax. The General Consumption Tax (GCT) is the last major piece of legislation to be enacted into law as a part of the GOJ's comprehensive tax reform program. The GCT, a value-added type of tax, is intended to replace and rationalize the

existing system of indirect taxation, which had grown up over the years in haphazard fashion in response to the pressing revenue needs of the day.

USAID/Jamaica's Board of Revenue Assistance Project has provided significant technical support to this part of the tax reform effort. The design work for the GCT is completed, and initial implementation efforts in anticipation of legislative enactment are well underway. The forms, operational manuals and test materials for the GCT have been developed, and staff training completed. Work has also been completed on the Business Enterprise Registration System (BENO), a part of the GCT. The registration module of the GCT computer system, which is an extension of the BENO system, is now operational. Work is progressing satisfactorily on the ledger and accounting modules.

With elections approaching, and in spite of an understandable reluctance to make any announcement about what might be perceived as yet another in a long series of taxes, mid 1988 would be the right time to begin streamlining the existing indirect tax system as a precursor to the introduction of the full GCT in January 1989. This item is included in the medium case policy reforms (i.e. ESF corresponding to US$25 million) because at any lower levels the GOJ would in all likelihood conclude (probably correctly) that the political costs of introducing a first phase would far outweigh the benefits, which would be negligible in the short run. In fact, the GOJ rejected outright a World Bank proposal that the GCT be introduced in April 1988. USAID is involved in ongoing negotiations with the GOJ to introduce phased steps in 1988 that pave the way for the full GCT in 1989.

C. High Case Policy Reforms

1. Additional Tax Reforms. When the GOJ enacted into law the corporate tax reforms, they omitted a key recommendation made by the Tax Reform Committee: to eliminate the double taxation of dividends.

The GOJ is presently examining possible amendments to the corporate tax regulations that would allow for a reduction, or credit on taxes on dividends if these credits are converted into equity. One possibility that USAID/Jamaica is discussing with the GOJ is to provide a reinvestment tax credit to a company equal to the tax withheld on its paid dividends, which credit can be taken, when, and only to the extent that:

--the amount claimed as credit is reinvested in capital assets used in its trade or business; and

--the amount claimed is added to the company's paid in capital in a way that it cannot be distributed to shareholders except on liquidation. This presumably would involve a new restricted sub category of the equity section of the balance sheet.

USAID/Jamaica has made proposals to the GOJ as to practical ways that this could be done. There is initial interest by the GOJ, and action would represent a reversal of a decision made only one year ago.

2. <u>Exchange Controls</u>. The Prime Minister stated in the JFY 1987/1988 Budget Speech that "Exchange control restrictions in a country with scarce foreign exchange resources are understandably tight." If Jamaica is to achieve sustained growth into the 1990s above and beyond its domestic saving capacity, it will need to attract foreign capital. Given the present levels of Jamaica's international indebtedness, it is unlikely that significant amounts of new foreign debt capital can be raised. It must therefore seek foreign equity investment. A relaxation of the foreign exchange controls will help to accelerate the process of foreign investment, and therefore contribute to growth. (In general, the easing of foreign exchange pressures on the exchange rate, described in previous sections, as well as the progressive depreciation of the Jamaican dollar, has resulted in the removal of disincentives on current account transactions, such as non-traditional exports. For the most part, those firms engaged in non-Caricom exports have had access to foreign exchange. The existence of foreign exchange controls, however, remains a disincentive to capital account transactions, such as direct and portfolio investment.)

The GOJ in general intends to liberalize progressively the country's exchange control system. They believe that a fully liberalized system can only be achieved once long term viability and stability has occurred in the balance of payments and the country has realized a positive net balance of international reserves of sufficient size to meet normal seasonal foreign exchange inflows and outflows.

In fact, the GOJ has taken progressive steps to liberalize the foreign exchange regime. In January 1987, the basic allowance for non-business travel abroad was raised from US$50 to US$150 per person per annum. In April 1987, remittances from emigrants' property and for family maintenance no longer require specific approval up to a limit of US$1,000 per annum. In June 1987, the exchange control authority for all current transactions was delegated to the commercial banks.

There is a movement underfoot for perhaps a more fundamental reexamination of exchange controls, which USAID/Jamaica is encouraging at all levels of policy dialogue. As the GOJ seeks foreign participants for its privatizations, it is becoming increasingly aware of the (unintended) impediments to foreign

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investment created by exchange controls. Similar experience is being gained with the debt-equity swap program. Recently, a leading journalist aligned more in spirit with the policies of the opposition People's National Party than the Jamaican Labor Party argued in a widely publicized article that the flows of capital into and out of Jamaica should be liberalized.

Realistically, we have little hope of dramatic movement now. But we are pursuing the dialogue at all levels, and exploring a wide range of ways to take some steps forward.

D. Conclusion

As the foregoing has indicated, USAID/Jamaica's is pursuing important policy reforms regardless of the level of ESF ultimately set, although some of the high case policy reforms clearly need the persuasive assistance of appropriate sums. The importance of the requested $45 million lies in sustaining the present growth path Jamaica is on, and thereby defending and consolidating the significant structural adjustments, policy reforms and stabilization measures that Jamaica has undertaken.

It must be noted that ESF levels lower than those proposed impart a certain "razor's edge" quality to the calculus. There is a level of growth in 1988, and concomitant level of employment, at which the present policies would be validated in the elections, either through victory by the present government or a strong showing that would deny the opposition the mandate to embark upon radically different policies. For want of US$10 or 20 million, we run the risk of losing the successes, albeit incomplete, of a half billion dollar investment.

VI. PROGRAM IMPLEMENTATION

A. Summary

The proposed $45,000,000 program will be authorized for obligation in two separate tranches. The first tranche will be disbursed as soon as possible after commitment of FY 1988 funds as a cash transfer into a GOJ account in a United States Bank in the United States established specifically for the purpose of receiving cash transfers. The second tranche will be disbursed after satisfaction of the requirements under the Anti-Drug Abuse Act of 1986.

B. Utilization and Management of U.S. Dollar Resources

The funds will be disbursed into the interest bearing Separate Account of the GOJ at Irving Trust Company in New York. This account was established specifically for this purpose under Production and Employment VII; the BOJ will maintain this account for this purpose, ensuring that the previous balance is nil on the date of disbursement and deposit of this and any subsequent cash transfer funds. No other funds will be commingled in this account.

In line with guidance contained in State 325792, the Grant Agreement will require the GOJ to use the funds, and any accrued interest, to effect debt service payments or to finance imports on a reimbursable basis.

Debt Servicing. Jamaica's huge foreign debt servicing burden, by siphoning needed resources out of the economy, continues to be a barrier to growth and development. Although Jamaica has rescheduled her commercial and bilateral debt, additional assistance from the IMF and the World Bank has been stretched to the institutionally regulated limit, and debt servicing will continue to be a major concern for the foreseeable future.

It is expected that the majority, if not all, of the FY 1988 cash transfer will be used to satisfy debt servicing requirements. This will not include debt relating to military requirements or debt known to have been incurred to finance equipment for surveillance, abortion, gambling, or weather modification; luxury items; or pesticides which are not registered by the U.S. Environmental Protection Agency for use without restriction. Service of debt owed to the U.S. government (exclusive of FMS debt) shall have first priority. In addition, the Mission is requesting concurrence from LAC/AA to use the cash transfer dollars for servicing of debt owed to multilateral development banks and the IMF.

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Import Financing. Any funds not used for debt servicing will be used to finance imports through the auction. Such imports should be by the private sector and consist of spare parts, capital goods, agricultural inputs, and industrial inputs. The funds will not be used to finance military or police requirements of any kind, surveillance equipment, abortion equipment, luxury items, gambling equipment, weather modification equipment, or pesticides which are not registered by the U.S. Environmental Protection Agency for use without restriction. Funds obligated under the Grant Agreement for Production and Employment VIII will be used to reimburse auction transactions that occur in US FY 1988.

Project Implementation Letter No. 2 (see Annex B) will outline the procedures for monitoring the use of the U.S. Dollars for both debt servicing and import financing.

C. Local Currency Programming and Reporting

Under the Grant Agreement, the GOJ will be required to deposit an equivalent amount of local currency into a Special Account in the Bank of Jamaica. As evidence of this transaction, the GOJ will provide to USAID a bank statement within two weeks of the end of the month in which the disbursement occurs. Funds made available as a result of the Grant Agreement, as well as any interest accruing thereon, will be used for mutually agreed upon purposes consistent with the A.I.D. program of assistance to Jamaica.

In line with State 325792, the Mission will be pursuing a sectoral approach to the programming of local currency.

Mission strategy has been to enter into dialogue with the GOJ prior to the finalization of the GOJ budget process in order to ensure adequate funding for USAID financed activities. This GOJ budget will be the basis for subsequent allocation of the local currency. In the last quarter of GOJ fiscal year 1987/88, the USAID will compile a list of the Mission portfolio's budget authority needs (both counterpart and donor funds) for the coming Jamaican fiscal year 1988/89, April 1 to March 31. On the basis of this information, the Mission will discuss the its needs with the Ministry of Finance (Budget Division), thereby ensuring that these are considered during the GOJ's annual budget preparation exercise.

Because of the similarities in the procedures for programming the local currency associated with both PL-480 and ESF, and because the responsibility falls to the same office in the Ministry of Finance, both sources of local currency will be programmed in tandem, with a splitting in the sectoral emphasis as follows: Local currency made available under the ESF Grant Agreement will be supportive of private sector activities in the areas of trade, and investment, and skills upgrading; promote development of the education sector; and will finance the USAID Trust Fund. Local currency generated from

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the sales of PL-480 commodities will be used primarily to promote private sector growth in the areas of agriculture, rural development, nutrition, and health. This will be accomplished by channelling funds through the government budget. Direct support will be provided to the private sector through Section 108 activities, using local currency generated from PL-480 sales .

Local currency will continue to be used to support GOJ budgetary requirements. If additional ESF is made available, the additional local currency made available for joint programming will allow the Mission to negotiate the inclusion of additional one-time activities in the GOJ budget rather than continuing the current practice of programming it to fund existing line items. These will have to be negotiated with the GOJ prior to the finalization of the GOJ's "Estimates of Expenditure" in March 1988 in order to ensure that approved line items and amounts are included in the government's budget. The purpose will be to eliminate on-going dependence of the GOJ budget on ESF.

Project Implementation Letter No. 3 (see Annex C) will outline the procedures for programming and monitoring the local currency.

D. Conditions, Covenants and Negotiating Status

The Grant Agreement which will obligate the funds will contain only the standard conditions precedent, viz.

> "Prior to the first disbursement under this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Government of Jamaica will furnish to A.I.D., in form and substance satisfactory to A.I.D.:
>
> > "(a) An opinion of the Attorney General of the Government of Jamaica, or other counsel satisfactory to A.I.D., that this Agreement has been duly authorized and/or ratified, and executed on behalf of the Government of Jamaica and that it constitutes a valid and legally binding obligation of the Government of Jamaica in accordance with all of its terms.
> >
> > "(b) A statement representing and warranting that the named person or persons have the authority to act as the representatives of the Government of Jamaica together with a specimen signature of each person certified as to its authenticity."

As discussed previously, the Mission strategy has been to engage in policy dialogue with the GOJ far in advance of a particular written agreement. GOJ actions to date preclude the need for written covenants to be included in the Grant Agreement. A written record will be put into the file detailing performance undertaken by the GOJ as a result of the policy dialogue.

E. Payment Verification

Upon meeting the conditions precedent, the Grant will be a cash transfer. Mission Controller concurs that the payment verification policy has been complied with.

F. Program Implementation Schedule

The following table outlines the proposed implementation actions required under Production and Employment VIII. Obligation of the second tranche assumes that the Presidential Anti-Drug Abuse Certification is presented to Congress on a timely basis.

Activity	Anticipated Date
1. PAAD approved	December 18, 1987
2. Receive budget allowance	December 24, 1987
3. Sign Grant Agreement	December 28, 1987
4. (CP) Legal Opinion/ Authorized Representatives	December 28, 1987
5. Financing Request	December 28, 1987
6. Disburse first tranche	December 30, 1987
7. Deposit local currency equivalent	December 30, 1987
8. Sign Amendment for 2and tranche	March 10, 1988 *
9. (CP) Legal Opinion/ Authorized Reps	March 10, 1988
10. Financing Request	March 10, 1988
11. Disburse second tranche	March 10, 1988
12. Deposit local currency equivalent	March 10, 1988
13. Programming of local currency for JFY88/89 activities	June 30, 1988

* N.B. his assumes the Presidential Anti-Drug Abuse Certification is submitted to Congress prior to March 1, 1988 and that implementation of Anti-Drug Abuse Act of 1986 procedures will be similar to those of FY 1987.

VII. ENVIRONMENTAL CONSIDERATIONS UNDER 22CFR Part 216

A. Activity Description

Production and Employment VIII will provide a grant of $45,000,000 from Economic Support Funds. The purpose of the grant is to provide immediate balance of payments assistance in support of GOJ actions to establish a policy environment that is conducive to more robust long-term growth and development.

The proposed ESF funds will be used to reimburse the financing of private sector imports of critical raw materials, spare parts and capital goods from the United States during U.S. fiscal year 1988. The GOJ will deposit the U.S. dollars in a separate account for the purpose and will deposit an equivalent amount of Jamaican dollars in a special account locally for use on mutually agreed upon high priority development purposes.

The standard conditions precedent involving the submission of the legal opinion, the designation of authorized representatives and a financing request will be satisfied prior to disbursement of funds pursuant to this grant.

B. Discussion

The activity in question is a cash transfer which, when weighed against the criteria in Section 216.2 (c) (1) (ii) of AID's Environmental Procedures, is considered to qualify for a categorical exclusion for which an Initial Environmental Examination is generally not required.

This statement is submitted for Bureau Environmental Officer review in accordance with Section 216.2(3).

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DAEC CONCERNS: Mission Response to State 367440

The concerns raised at the issues meeting have been addressed in various sections throughout the PAAD. The following serves as a guide to issues cited in the cable.

Paragraph 5. As indicated by Mission representatives, USAID/Jamaica agreed to review the feasibility of language in the PAAD for continuing compliance with fiscal and monetary targets and a competitive exchange rate. The Mission agrees that continued stringent fiscal and monetary policies are essential to maintaining progress in establishing an appropriate macroeconomic environment in Jamaica. The progress made to date, including a vastly more market responsive exchange rate, sharp reductions in government deficits, strongly positive real rates of interest and increasingly independent monetary policy have been discussed at length in the PAAD. The World Bank has set a general path for continued fiscal/monetary/exchange rate progress which basically requires a steady decline to two percent of the GDP deficit by 1990, a decline in the balance of payments deficit to three percent and a pledge of prompt response of the exchange rate to external events or a lack of sustained fiscal and monetary progress.

Fiscal and monetary measures are therefore a matter of keen concern to USAID/Jamaica, and enter into our ongoing policy dialogue with the GOJ. These dialogues serve to provide ongoing insight into the Jamaican economy, and as such enter into both our tactics and strategy for helping it to attain self sustaining growth. As with the World Bank, a key part of this strategy is the steady reduction of the overall public sector deficit from recent heights of 15 percent of GDP to about five percent in the present fiscal year, and declining steadily to about three percent over the next four to five years. This in turn will ease the pressure on the monetary accounts, inflation and the balance of payments. This policy dialogue is amply aided by such projects as comprehensive tax reform, which while making the system fairer and more efficient has actually raised revenues, and privatization.

USAID/Jamaica believes that the ongoing policy dialogue approach utilized during the past two years is appropriate. USAID/Jamaica will continue to include the general criteria described above in discussions with the GOJ. The

Mission specifically and strongly recommends against a general covenant such as the one described in the referenced cable. As indicated in the body of this PAAD, the Mission's approach to policy dialogue has evolved to the point where discussions begin far in advance on policy and structural reforms the Government might take which, prior to signing an agreement, would warrant an ESF program. The GOJ has appreciated this approach, and since its adoption USAID/Jamaica has achieved more success in having its agenda accepted than under the previous ESF agreements with highly detailed conditionality. The success with policy dialogue, as described in the PAAD, reflect the greater cooperation that can be elicited with a government that feels that it is involved in a genuine dialogue.

As indicated, the GOJ and the IMF have reached agreement on a new Stand-by, one which specifically addresses these issues. The GOJ has met its quarterly targets through September. In the opinion of USAID/Jamaica, the present IMF program is consistent with measures to promote macroeconomic stabilization. In light of the ongoing IMF program, its success in maintaining the targets under this program, and the GOJ's own understanding of the important linkages betweeen fiscal and monetary targets, the validation of its present exchange rate, and its balance of payments, it would probably view the proposed general covenant as gratuitous.

In short, in light of our success with policy dialogue, we do not wish to change course and replace our present approach which has worked by the inclusion of a covenant which violates the present spirit of cooperation with the GOJ.

Paragraph 6

--"Dollar and local currency programming, management (including the establishment of special accounts), and monitoring plans." This is discussed in Section VI. "Program Implementation" which begins on page 33.

--"How foreign exchange constraints do or do not affect non-traditional export growth, particularly as a disincentive in this area." Please see page 31. It should be added that some bidders at the foreign exchange auction initially faced substantial delays in receiving their foreign exchange. Under the new IMF program, the waiting period has been effectively reduced to no more than seven days, after which time the foreign exchange due is considered to be in arrears. Our best information is that long delays for foreign exchange delivery have not reappeared.

--"A description of DA projects supportive of policy dialogue, which promote export earnings/growth." Such a description is found on page 11. Directly or indirectly virtually all of our projects are supportive of policy dialogue. Please note that this issue is being addressed in greater depth in preparation for our upcoming CDSS. As a part of the CDSS process, an analysis of our present portfolio will focus on the extent to which more mileage in terms of policy dialogue can be obtained from our DA projects Where applicable, they also promote export earnings/growth as a part of the overall strategy, outlined on pages 9-11, to shift the economy away from an import substitution regime to one where growth is export led. This shift is well on track.

--"A discussion of progress on previous year target areas and continued work on these." Please see pages 8-15 for a discussion of policy reforms over the last seven years, including the last year. For a discussion of stock market improvements, please see page 28.

U.S. DOLLAR USE MONITORING

Project Implementation Letter No. 2 will outline the procedures for monitoring the use of the dollars for both debt servicing and import financing. Discussion between the BOJ and USAID have worked out the details of how US Dollar use might be tracked. Following is an illustrative description of the type of system that will be put in place.

Debt Servicing

(1) GOJ will send USAID documentation showing that the deposit has been made to the GOJ Separate Account.

(2) Following disbursement of the funds for agreed upon debt servicing, the Bank of Jamaica will submit documentation tracking the funds to the end use. These will include (a) copies of telegraphic instructions from the Bank of Jamaica to the United States Bank where the funds are lodged authorizing payments for a particular purpose (i.e. payment for a particular loan), (b) copies of the advice of debit from the account, and (c) copies of bank statements showing the movement of funds.

This process is relatively straight forward and the BOJ is familiar with it, having used with it when reporting on the use of the second tranche of Production and Employment VII.

Import Financing

(1) GOJ will send USAID documentation showing that the deposit has been made to the GOJ Separate Account.

(2) On a periodic basis, the BOJ will compile documentation supporting accepted bids to the Auction for foreign exchange from private sector importers that satisfy the criteria above. This documentation will consist of the invoice, the bill of lading, and the customs clearance. The BOJ will then draw up a summary sheet showing a control number, the name of the importer, the commodity, the source of the commodity, the product category (i.e. spare parts, capital goods, agricultural inputs, or industrial inputs), and the FOB value of the imported commodity.

(3) The summary sheet will be certified by the Director of the Foreign Exchange Management Division of the Bank of Jamaica and transmitted to USAID for review and approval.

(4) The back up documentation will be retained by the Bank of Jamaica as part of its files related to the Agreement and shall be available for review and/or audit in accordance with Section 9.2. of the Agreement.

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(5) Following review of the Summary Sheet, USAID will formally indicate by Project Implementation Letter which bids are reimbursable and will authorize the BOJ to withdraw funds from the Separate Account sufficient to cover the bids.

(5) BOJ will send USAID documentation showing that the withdrawal has been made from the GOJ Separate Account.

This process will continue until all funds have been withdrawn from the GOJ Separate Account. Although the process is time consuming and places an additional burden on the Bank of Jamaica, it will enable the Mission to identify the dollars with specific imported commodities.

LOCAL CURRENCY PROGRAMMING AND MONITORING

Project Implementation Letter No. 3 will outline the procedures for programming and monitoring the local currency. The following is an illustrative example of how the process might operate. Although this has been informally discussed with the MOF, we are awaiting the completion of the currently ongoing RIG survey of ESF in January 1988 before proceeding further. Any recommendations arising from the survey will be incorporated at that time, and the process formally negotiated with the government.

On the basis of the GOJ "Financial Statements and Revenue Estimates" for JFY 1988-89, which will most likely be tabled by the Jamaican House of Representatives sometime in May 1988, staff of the Ministry of Finance (Economic Division/Public Debt Section) will submit to USAID the following information:

(1) Total estimated expenditures for development activities in the categories listed above. This would consist of the Budget subtotals for the A and B subheads for select ministries.

Education and Human Resources	- Ministry of Finance and Planning (B Subhead only) - Ministry of Education - Ministry of Youth and Community Development
Trade and Investment	- Ministry of Foreign Affairs, Trade, and Industry - Ministry of Mining, Energy, and Tourism - Ministry of Construction (Works) - Ministry of Construction (Housing)
USAID Trust Fund	

(2) The estimates for expenditures financed by donors (as opposed to GOJ revenues) for the above ministries.

(3) The difference between these two amounts (#1 - #2) will be an indication of the total GOJ revenue sourced funds allocated by the GOJ for development activities in each sector.

These figures will be used as the basis for a subsequent Project Implementation Letter, to be countersigned by the Financial

Secretary, which will formally program the funds. The amount programmed will be equal to the total amount available in the various Special Accounts at that time.

The relationship between the amount in item #3 and the total expressed by item #1 will represent the percentage rate that will be applied to the quarterly warrant allocation to determine the amount to be transferred from the Special Accounts to the Consolidated Fund for use on Sectoral development activities. On a quarterly basis, the MOF (Economic Division/Public Debt Section) will transmit copies of the GOJ warrant, a worksheet applying the relevant percentage rate to each appropriate ministry allocation in order to determine the amount to be transferred, and a copy of the transferal request. On a regular basis, this office will also transmit to USAID copies of the Special Account bank statements from the Bank of Jamaica. These documents will be reviewed by the ESF Project Officer.

Following the end of the JFY 1988/89 and the GOJ's own internal reconciliation of the year's expenditure figures, the MOF (Economic Division/Public Debt Section) will transmit a copy of this report to USAID. The Mission will use this information to assure itself post hoc that the GOJ has accorded an appropriate emphasis to priority programs. It will also be used as a basis for making judgements about future local currency allocation decisions.

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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

Jamaica
FY 1988

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1987 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   1. No.

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance? 2(a) Yes.

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

3(a) No.

3(b) No.

3(c) No.

3(d) No.

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4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? 4. No.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? 5. No.

6. FAA Secs. 620(a), 620(f), 620D; FY 1987 Continuing Resolution Secs. 512, 560. Is recipient country a Communist country? 6. No.
If so, has the President determined that assistance to the country is important to the national interests of the United States? N.A.
Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? No
Will assistance be provided to Afghanistan without a certification? No

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? 7. No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? 8. No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? 9(a) No
(b) If so, has any deduction required by the Fishermen's Protective Act been made? 9(b) N.A.

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10. FAA Sec. 620(q); FY 1987 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1987 Continuing Resolution appropriates funds?

10(a) Yes, however, as a result of the third Bilateral Debt Resheduling Agreement the GOJ will be cleared of the 620(q) violation following expiration of the Congressiona Notification waiting period.

10(b) No

11. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. Yes, taken into account by the Administrator at time of approval of Agency OYB

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

12. No

N.A.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? (Reference may be made to the Taking into Consideration memo.)

13. Not in arrears

N.A.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

14. No

15. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

15. No

16. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

16. No

17. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

17. No

No

18. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

18. No

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

19. Yes, they attended, and they did not disassociate themselves from the communique. However, they did submit specific reservations. This was taken into account by the Administrator at the time of the Agency OYB.

20. FY 1987 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? 20. No

21. FY 1987 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? 21. No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? 1. No N.A.

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? 2. No N.A.

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

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

Yes, in November 1987. Jamaica - FY 1988
Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   1. Congress has been notified in accordance with routine A.I.D. Procedures.

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

   2. No further legislative action required.

3. 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.

   3. No

   N.A.

4. 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.

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

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

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

6. FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution 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.

6. GOJ budgets and provides counterpart funds.. Mission periodically reviews level of contributions with Ministry of Finance and line ministries. There are no U.S.owned local currencies.

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

7. No, there is no excess U.S. owned local currency

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

8. N.A.

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

9. N.A.

10. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

10.. No

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

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

1(a) Yes. The assistance will assist Jamaica in meeting its present critical foreign exchange deficit, thereby permitting essential imports.

Yes.

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

1(b) No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

1(c) Yes

Yes

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

1(d) N.A.

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

1(e) N.A. (not for use by an African Country)

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

(i) N.A.

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(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development; (ii) N.A.

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

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

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

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA; (vi) N.A.

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

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States?

1(f) No

N.A.

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

1(g) N.A.

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. governnent 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)?

1(h)(a) Yes

1(h)(b) Yes

The equivalent amount of local currency which is made available for joint programming by USAID and the Government is placed in a special account.

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2. Nonproject Criteria for Development Assistance

2. N.A. Funds are ESF

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

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value;

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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; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for tne 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 outrearch.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, 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.

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

(i)(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 (b) 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;

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

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

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

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

(vi) 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.