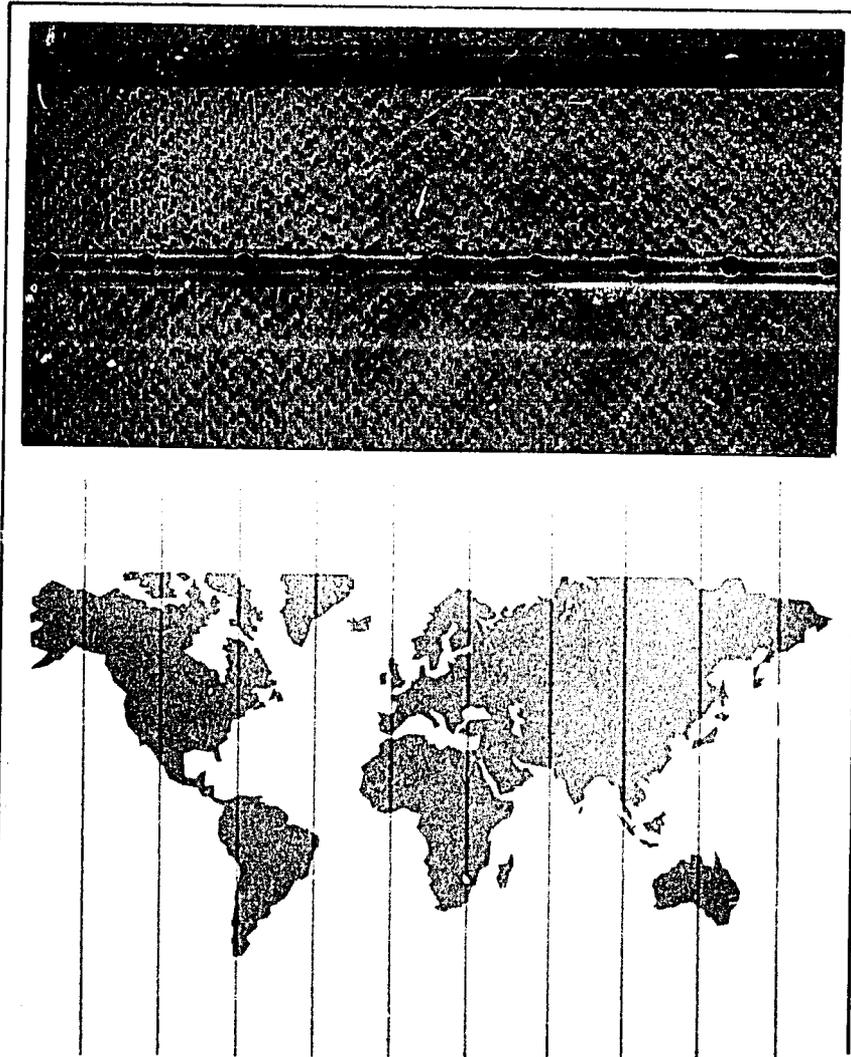


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
LATIN AMERICA
(Washington, D.C.)

MEMORANDUM REPORT ON
THE ECONOMIC PRODUCTION,
EMPLOYMENT AND RECOVERY PROGRAMS
JAMAICA
AUDIT REPORT NO. 1-532-83-2
NOVEMBER 16, 1982

The Economic Production, Employment, and Recovery Program totals about \$78.0 million. AID is providing these funds from the Economic Support Fund (ESF). The program has two principal purposes: (a) to provide immediate balance-of-payment support; and, (b) to stimulate production, employment, and exports.

The survey showed that the objective of providing immediate balance-of-payment support had been accomplished. The second objective is a longer term development goal and cannot be measured at the current time. However, improvements can be made in the implementation of two areas of the program: procedures for documenting and reviewing reports on imported commodities; and, deposits and accounting for agreed counterpart funds by the Government of Jamaica.

This report includes four recommendations.

MEMORANDUM

DATE : November 16, 1982

FROM : Jose M. Pena
Acting RIG/A/LA

SUBJECT: Memorandum Report on the Economic Production, Employment,
and Recovery Programs (Loan Nos. 532-K-014 and 017) in Jamaica
Audit Report No. 1-532-83-2

TO : Mr. Lewis P. Reade
Mission Director
USAID/Jamaica

RIG/A/LA surveyed the subject programs in March and April 1982 and found that the objective of providing immediate balance-of-payments support had been accomplished. The longer development term development objective of stimulating production, exports and employment was in the initial stages of implementation and could not be measured at the time of our survey. We noted several areas where improvements in reporting, documentation, review and compliance should be made.

Background Information

Between 1973 and 1980, Jamaica experienced seven years of continued economic decline. Its Gross Domestic Product (GDP) declined by 18.3 percent and per capita income declined more than 25 percent. Production declined or stagnated in all major sectors of the economy. The effects of the decline in national investment (from 30.5 percent of GDP in 1974, to 10.5 percent in 1977) were felt first and most severely in the construction industry. Between 1974 and 1977, real GDP in construction declined more than 40 percent. The loss in jobs totalled more than 13,000 or more than one-third of all construction employees. At the macro-economic level, unemployment increased to about 35 percent.

Large fiscal and balance-of-payments deficits, meanwhile, produced an official foreign debt that on September 30, 1980, totalled approximately \$1.79 billion. Debt service payments due -- approximately \$1.65 billion thru 1983 -- had risen to the point where they effectively excluded the possibility of an economic recovery based only on Jamaica's own resources.

Behind this decline in the Jamaican economy were essentially four factors: (1) a precipitous decline in private investment; (2) a series of unexpected shocks to the external account (i.e., the rapid rise of oil prices in 1973 and an unanticipated decline in tourism); (3) the GOJ's miscalculation on the ultimate effects of a levy on bauxite production; and (4) a series of deficits were financed by large short-term foreign borrowings and excessive monetary expansion.

In its election manifesto, the Jamaica Labor Party (JLP) promised a radical break with the nation's past economic policies. Where the former government had inhibited foreign investment, the JLP promised to encourage it, particularly in labor intensive or export oriented industries. Where the former government had sought to limit the role of the private sector and preserve for the public sector the commanding heights of the economy, the JLP promised to promote the role of the private sector, limit bureaucratic controls on the interference with economic activity, and in general, to open the economy up to the motivational force of price and profit incentives. Also, where there had previously been no alternative to continuing balance-of-payments deficits, the JLP promised a return to the IMF and, at least in the medium term, a return to the payments pattern of the late 1970's, when public and private capital in-flows had offset large current account deficits. The manifesto went on to promise that a JLP government would close the budget financing gap by 1984, limit the portion of new credit going to the public sector and ensure that sufficient credit was available to receive the private sector.

To assist the GOJ in its economic recovery efforts, AID decided to provide some assistance from the Economic Support Fund (ESF) for the purpose of (a) providing immediate balance-of-payments support to allow critically needed imports of spare parts, industrial and agricultural inputs, and capital goods; and (b) stimulating production, exports and employment. Initially, AID considered the possibility that resources could be provided in the form of a Commodity Import Program (CIP). However, further analysis showed that a CIP would not be the most appropriate assistance instrument.

First, the CIP would not provide the quick disbursing balance-of-payments support which Jamaica so urgently required. In fact, AID's prior experience in Jamaica with the 1977 CIP loan indicated that significant delays could be expected. Loan disbursements under the 1977 loan required 18 months to be fully disbursed, and, therefore, some of the balance-of-payments impact originally intended was lost.

Second, the establishment of a CIP would have imposed an administrative burden which Jamaica would have found difficult to bear. The Government's bureaucracy was already seriously short of trained personnel to carry out existing programs and the addition of new requirements would have further increased the strain on the public service.

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

For the above reasons, USAID/Jamaica proposed and used the "cash transfer" mechanism established in AID Handbook 4 to provide lump sum transfers under two loans:

<u>Loan No.</u>	<u>Title</u>	<u>U.S. Millions</u>
532-L-014	Production & Employment	\$40.0
532-K-017	Production & Employment II	38.0
		<u>\$78.0</u>
		=====

On January 19, 1981, the GOJ and AID signed the \$40 million loan agreement which provided immediate balance-of-payments support to the Government of Jamaica. About a year later (December 1981), another loan totalling \$38 million was provided to the GOJ for the same purpose.

As provided in the loan agreements, these funds are being used to finance a broad range of eligible imports -- spare parts, raw materials, capital goods, and other inputs -- needed by the private and public sector to generate increased production, exports and employment.

The term of both loans was for 20 years at 2 percent interest for the first 10 years, and at 3 percent thereafter. Repayments are to start 10 years after the first disbursement.

The disbursement of the first \$40 million loan was in two tranches. After certain conditions precedent were met, \$10 million was disbursed on January 22, 1981. The second tranche of \$30 million was disbursed on March 25, 1981, after the International Monetary Fund (IMF) notified AID that the GOJ economic program was a satisfactory basis for IMF management to establish a stand-by or extended fund facility agreement with the GOJ.

Upon disbursement of the \$40 million, local currency of J\$71.2 million was to be generated by the GOJ for use in restoring economic growth and long-term development. These funds were allocated within the GOJ's 1981/82 capital and recurrent budgets and were to be disbursed during the twelve month period, April 1, 1981, through March 31, 1982. These local currencies were to finance three general categories of assistance:

- The first category was to support projects being assisted by USAID which were not being financed with local currencies generated under a FY 1981 PL-480, Title I Agreement;
- The second category was to furnish counterpart requirements for other donor financed ongoing projects that were not covered by the Caribbean Development Facility Loan III;
- The third category was to assist capital and recurrent budgets of GOJ programs in the agriculture, health, education, housing, and energy sectors.

On December 29, 1981, the second loan agreement was signed which provided the GOJ with an additional \$38 million for the Production and Employment II

program. Disbursements in excess of \$5 million were subject to the following conditions: (1) the GOJ was to substantially meet conditions contained in its agreement with the IMF; and (2) the GOJ and the International Bank for Reconstruction and Development (IBRD) had to reach substantial agreement with respect to a proposed Structural Adjustment Plan. These conditions were satisfied, and all funds were disbursed on January 11, 1982. Therefore, between January 20, 1981 and January 11, 1982, AID disbursed \$78 million for this program.

Under the terms of both loans, the GOJ agreed to import goods and services from the U.S. in amounts at least equivalent to the amount of the loans. In the first loan, the GOJ agreed that the loan equivalent in Jamaican dollars would be allocated to finance the local currency cost of development programs. However, in the second loan, the Mission required the GOJ to deposit local currency in a special account at the Bank of Jamaica and the money would be allocated to finance the local currency costs of mutually agreed development programs.

Scope of Survey

The purpose of our survey was to review the effectiveness, efficiency, and economy of implementation of the Economic Production, Employment, and Recovery Programs.

We surveyed program activities from inception through March 30, 1982, for both loans, including the use of dollar and local currency funds. Our review of the Production and Employment II loan was limited because the program had only been in existence for three months. We examined program documents and records and discussed program progress and activities with officials at the Bank of Jamaica and the AID Mission. The results of our survey were discussed with USAID/Jamaica officials. In addition, the draft report was reviewed by the same officials; their comments were considered in finalizing this report.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

An Overall Assessment of Program Goals and Accomplishments

The objectives of the two Cash Transfers for the Economic Recovery Program I and the Production and Employment Program II were: (a) to provide immediate balance-of-payments support; and (b) to stimulate production, exports, and employment.

As of March 30, 1982, all \$78.0 million had been disbursed to the GOJ. Therefore, the objective of providing immediate balance-of-payments support had been achieved. The second objective -- stimulating production, exports and employment -- could not be measured during our review. First, the program was in the early stages of implementation relative to the use of the local currency. Second, the GOJ had not deposited the counterpart funds of the second loan in a special bank account. Third, this is a long-term development goal and its impact cannot be determined in such a short-term period. For these reasons, the achievements or prospects of achieving the second objective could not be determined.

Our survey showed that: (a) the GOJ had not been submitting reports on a timely basis; (b) documentation for import reports was inadequate; (c) import reports were not being reviewed by the Mission for ineligible charges; and, (d) the GOJ had not complied with portions of the second loan agreement which required deposit of local currency in a jointly administered GOJ/USAID account at the Bank of Jamaica (BOJ) and joint consultation on the use of these funds.

Reports and Documents on the Use of Foreign Exchange

Improvements need to be made to the procedure for documenting and reviewing BOJ reports on imported commodities. Import reports were being submitted late and the Mission was not reviewing them in a timely manner. The BOJ was not maintaining the required documentation for the import reports. Finally, the reporting procedure needs to be simplified to reduce reporting and reviewing burdens.

Both loans require the GOJ to import within specified periods of time, goods and services from the United States at least equal to the loan amounts. For the first loan (\$40 million), import reports were due one year from the date of disbursement. In the case of the second loan (\$38 million), the reporting time increased to 15 months from the date of disbursement. Because the first loan was disbursed in two tranches, the first import report on \$10 million was due on January 22, 1982, and the second report for \$30 million was due on March 25, 1982. Both reports were late. The first was received in late March 1982, while the second report had not been received by April 22nd. According to USAID/Jamaica, the GOJ had submitted reports totalling

US\$32.4 million by November 12, 1982. Thus, it is still delinquent in its accounting for imports.

The project agreement required that documentation supporting the import reports be kept at the BOJ. On our visit to the BOJ to review these documents and determine the propriety of these charges, BOJ officials told us that photocopies of invoices and bills of lading had been made for the imports listed on the report. They showed us stacks of photocopies to be logged into report forms. However, they were unable to readily locate the copies of the documents supporting the imports listed on the report submitted to USAID/Jamaica in March 1982.

Original copies of the import documents were filed at the BOJ by importer name. But the import report did not contain the name of the importer -- only the name of the exporter. Consequently, we were unable to trace the import transactions back to the original invoice. The import report should be changed to include the name of the importer.

The first report contained charges for marine insurance, shipping, and ancillary costs which were attributed to the import totals. Without supporting documentation, we believe that:

- (a) marine insurance should not be attributed to the loan unless the report includes evidence that the insurance was underwritten by a U.S. company;
- (b) shipping charges should not be attributed to the loan unless evidence is provided with the report that the vessel flag is U.S.; and,
- (c) further explanation of ancillary charges is needed before they can be attributed to the loan.

At the time of our survey, the Mission had not yet examined the report to test for ineligible items or suppliers. Our tests showed ineligible costs were being attributed to the loans. For instance, photographic goods were being attributed even though the loan agreement specifically excludes the attribution of non-food consumer goods. Insurance costs and freight charges were being attributed to loan funds; however, the names and countries of insurance companies and vessels were not stated in the report.

The reporting format was quite burdensome to the BOJ. We question the need for some of the details being provided in the report. All that needs to be verified is that the imports came from the U.S., the date, and a description of the goods. A photocopy of the invoice and bill of lading should be sufficient to verify this information.

Jamaica imported \$658 million worth of goods and services from the United States in 1980; therefore, we believe that it is not so much a question of

meeting import requirements of the loan, but rather a question of how to provide the needed documentation in the simplest form.

In responding to our draft audit report, USAID/Jamaica stated that the U.S. Department of Commerce will be providing the Mission with a printout showing all Jamaican imports from the U.S. from January 1, 1981 to the present time. Imports will be stated at FAS value. The Mission anticipates the importations to be many times greater than the foreign exchange provided by AID under the two loans mentioned in this report. If this is borne out, the Mission agrees with us that ".... it is not so much a question of meeting import requirements of the loan but rather a question of how to provide the needed documentation in the simplest form".

In our draft audit report, we included the recommendations that USAID/Jamaica: (a) simplify the format of the import reports; (b) advise the GOJ to maintain supporting documentation in a readily accessible manner; (c) establish procedures to ensure that required reports are submitted in a timely manner; and, (d) establish procedures to ensure that reviews and adjustments are made effectively.

In its response, USAID/Jamaica stated that it had intentions of amending the loan agreements or to issue implementation letters with effect that the GOJ will be required to submit a document verifying and certifying the accuracy and correctness of the import information provided by the U.S. Department of Commerce. In addition, the Mission intends to include a Condition Precedent to Disbursement in future cash transfer type of agreements that all reports due must be submitted in satisfactory form and substance prior to any disbursement.

We believe that the steps contemplated by USAID/Jamaica are in the right direction. However, we must include the following revised recommendations pending completion of the necessary corrective actions.

Recommendation No. 1

USAID/Jamaica should amend or modify the terms of the Loan Agreements (Nos 014 and 017) to simplify the record keeping and reporting of importations by the GOJ.

Recommendation No. 2

USAID/Jamaica should establish procedures to ensure that required reports will be submitted by the GOJ in a timely manner and reviewed by the Mission as part of their monitoring responsibilities.

Use of Local Currency

The two loans require that the local currency equivalent be disbursed by the GOJ between April 1, 1981, and March 31, 1983, in the following manner:

<u>Title of Loan</u>	<u>Local Currency (Millions)</u>	<u>Period of Disbursement</u>
Production & Employment	J\$ 71.3	4/1/81 to 3/31/82
Production & Employment II	67.6	To Be Mutually Agreed upon

As shown above, both loans require the GOJ to allocate the loan equivalent in Jamaican dollars and to disburse all funds within a specified period of time. The GOJ delayed implementation of this requirement on the second loan.

The GOJ agreed to make specific allocations and disbursements under the first loan. Between April 1, 1981 and December 31, 1981, the allocations and disbursements were:

<u>Activity</u>	<u>Amounts in J\$000</u>				
	<u>Allocation</u>	<u>Disbursed</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>
USAID Assisted Projects	J\$ 2,900	J\$ 2,569	J\$ -0-	J\$ 2,327	J\$ 242
Projects Assisted by Other Donors	17,900	13,816	-0-	9,045	4,771
GOJ Development Activities:					
Agriculture	35,100	21,543	-0-	12,257	9,286
Health Sciences	8,700	1,166	-0-	909	257
Education	5,900	4,504	-0-	1,104	3,400
Energy	800	537	-0-	281	256
TOTAL	J\$71,300 =====	J\$44,135 =====	J\$-0- =====	J\$25,923 =====	J\$18,212 =====

Because of the slow rate of reported disbursements, the GOJ Financial Secretary requested AID to grant a 3-month extension to disburse the remaining local currency funds. The mission denied the request and suggested that funds were probably already disbursed, but had not been reported by the

various Ministries. The Financial Secretary checked with the Ministries and reportedly found sufficient disbursements to satisfy the loan requirements. The final report was not due to be submitted until April 30, 1982 (after the completion of our fieldwork). We were told that the GOJ expected to disburse about J\$27,165,000 during the fourth quarter. In its response to our draft report, USAID/Jamaica informed us that the actual disbursements during the fourth quarter were J\$26,863,988, or just slightly less than planned.

For the Production and Employment II Program, local currency totalling J\$67.6 million was to be deposited into a special account at the BOJ to finance local currency costs of development programs. The GOJ was to submit to AID Quarterly Activity Status Reports showing actual disbursements by activity.

As of April 23, 1982, the local currency had not been deposited into a special account at the BOJ. The GOJ did not give any reason for not depositing the money. The funds were to be programmed for mutually agreed activities. The Mission submitted a proposed budget to the Prime Minister on March 4, 1982. The proposed budget was:

Trust Fund Account:	
Program Costs	J\$ 3,280,000
Administrative Cost of U.S. Mission	-0-
Contractor Costs	2,222,000
Other Activities:	
JBC Radio Central Project	200,000
Agricultural Marketing Project	3,200,000
Agricultural Marketing	6,800,000
Basic Skills Training	1,000,000
Energy Development	<u>900,000</u>
TOTAL	J\$17,602,000
Balance for Mutually Agreed Upon Development Activities	<u>J\$49,998,000</u>
GRAND TOTAL	<u>J\$67,600,000</u> =====

As of April 23, 1982, the GOJ had not met with the Mission to discuss uses of the 67.6 million Jamaican dollars from the second loan. The Mission followed-up on its proposed budget on March 23, 1982, and inquired whether the special account at the BOJ had been established. A verbal response was received on April 22 that the account would be established by April 30, 1982.

In responding to our draft report, USAID/Jamaica informed us that the use and allocation of Jamaican dollars equivalent to \$38.0 million had been formally agreed in a counterpart agreement dated August 25, 1982. However,

the special account has not yet been funded because the GOJ Auditor General has ruled that the counterpart funds should be placed in a GOJ consolidated fund. The Ministry of Finance is working with the Auditor General to resolve this issue and has assured the Mission that the special account will be funded in the very near future. In this connection, USAID/Jamaica intends to include a condition precedent under future cash transfer programs to the effect that all required GOJ deposits to counterpart special accounts under previous loans must be fully funded prior to AID making any disbursements. We agree that inclusion of such requirements is a step in the right direction..

We also believe that the GOJ needs to be more responsive to Mission requests and to comply with the terms of the agreement. Otherwise, the programming and disbursement of local currency will not be timely and the desired impact on the economy may be delayed or not accomplished.

Recommendation No. 3

USAID/Jamaica should obtain a confirmed bank statement showing that the GOJ has established a special bank account and made the proper deposit.

Recommendation No. 4

USAID/Jamaica should negotiate with the appropriate GOJ officials on the expenditure of the funds mentioned in the prior recommendation.

LIST OF RECOMMENDATIONS

Page 1 of 1

Recommendation No. 1

USAID/Jamaica should amend or modify the terms of the Loan Agreements (Nos 014 and 017) to simplify the record keeping and reporting of importations by the GOJ.

Recommendation No. 2

USAID/Jamaica should establish procedures to ensure that required reports will be submitted by the GOJ in a timely manner and reviewed by the Mission as part of their monitoring responsibilities.

Recommendation No. 3

USAID/Jamaica should obtain a confirmed bank statement showing that the GOJ has established a special bank account and made the proper deposit.

Recommendation No. 4

USAID/Jamaica should negotiate with the appropriate GOJ officials on the expenditure of the funds mentioned in the prior recommendation.

APPENDIX A

LIST OF RECIPIENTS

	<u>No. of Copies</u>
Deputy Administrator	1
Assistant Administrator - Bureau for Latin America and the Caribbean (LAC/CAR), AID/W	5
Mission Director, USAID/Jamaica	5
Assistant Administrator - Bureau for Development Support	1
Assistant Administrator - Office of Legislative Affairs (LEG)	1
Assistant to the Administrator for Management (AA/M)	1
Office of Financial Management - (M/FM/ASD)	3
Directorate for Program and Management Services	1
General Counsel (GC)	1
Audit Liaison Office (LAC/DP)	3
Director, (OPA)	4
DS/DIU/DI	4
PPC/E	1
Office of the Inspector General (IG/W)	1
IG/PPP	1
IG/EMS	12
AIG/II	1
RIG/A/Washington	1
RIG/A/Abidjan	1
RIG/A/Cairo	1
RIG/A/Manila	1
RIG/A/Karachi	1
RIG/A/Nairobi	1
RIG/A/NE, New Delhi Residency	1
RIG/A/LA, Panama Residency	1
RIG/A/LA, La Paz Residency	1
GAO, Latin America Branch, Panama	1