THE EFFECTIVENESS AND ECONOMIC DEVELOPMENT IMPACT OF POLICY-BASED CASH TRANSFER PROGRAMS: THE CASE OF JAMAICA, 1981 TO 1987

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FOREWORD

Many developing countries have adopted policies involving market and price controls along with subsidies and special incentives designed to spur economic growth. All too often, however, such policies have had the opposite effect, encouraging inefficient and high-cost production. In the early 1980's, the problems resulting from inappropriate economic policies were compounded as the price of oil and other commodities rose sharply and the worldwide reccession of 1981-1982 took hold. During this period, most developing countris went into an economic tailspin.

In the early 1980's the Agency for International Development (A.I.D.) worked closely with several developing countries on economic restructuring and reform efforts were designed to reorganize and reinvigorate economies facing severe balance of payments pressures, mounting debt problems, rapid inflation, declining export and investment performance, and stagnant or declining economic growth. A.I.D. provided quick-disbursing nonproject assistance, with disbursements conditioned upon the developing country's adoption of a policy reform program. In the Latin America and Caribbean region, policy reform programs were funded through Cash Transfer.

A.I.D. has not routinely evaluated nonproject assistance, including Cash Transfer programs. But empirical data on the effectiveness and economic development impact of these programs is clearly needed to help in the future design and implementation of other policy reform programs. Such information will also help A.I.D in developing the proper mix of project and nonproject assistance, and within nonproject assistance the proper mix of Cash Tranfers, Commodity Import Programs, and PL 480 assistance.

A.I.D.'s Center for Development Information and Evaluation worked closely with A.I.D.'s Bureau for Latin America and the Caribbean on a series of evaluation studies of countries that had adopted Cash Transfer-based policy reform programs. The countries included in the study were Costa Rica, Jamaica, Honduras, and the Dominican Republic.

Each evaluation first looked at the resources A.I.D. provided along with the policy covenants and conditions that were applied. Next a series of performance indicators were developed to measure performance in each policy category, and finally the economic development impact of the policy changes were examined.

The Jamaican reform program shows the difficulties of instituting major reforms in an economy that is heavily dependent on one export and also lacks a strong private sector.

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PREFACE

This report is the second in the series entitled "A Comparative Study of the Effectiveness and Economic Development Impact of Cash-Transfer-Based Policy Reform Programs." It was prepared under the A.I.D. Macroeconomics IQC, Contract No. PDC-0000-I-10-6135-00 and was managed by A.I.D.'s Center for Development Information and Evaluation. (CDIE). The basic scope of work for the series was jointly designed by CDIE and the Bureau for Latin America and the Caribbean (LAC).

The research involved was carried out by a joint RRNA/A.I.D. research team over a five-week period during November and December 1987. Mr. Joseph Lieberson (the Project Officer) of CDIE and Ms. Elaine Grigsby of Economic Affairs were the A.I.D participants. The RRNA Team Leader was Mr. Richmond Allen, and Dr. Chris Herman served as Program Analyst.

The research team would like to thank Jamaica Mission Director Mr. William Joslin for his active cooperation and that of his staff during the performance of this evaluation. Mr. Paul Crowe of the Economic Affairs Office was especially helpful in providing necessary statistical material and logistical support. Mr. Myron Golden also provided support and information on the Mission tracking and administration of

the Cash Transfer system. Several other USAID Office Directors and technicians were of considerable help to the team.

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LIST OF ACRONYMS

A.I.D. Agency for International Development

A.I.D./W Agency for International Development/ Washington, D.C.

CARICOM Caribbean Common Market

CBI Caribbean Basin Initiative

CCC Caribbean Cement Company

CDIE The Center for Development Information and Evaluation of A.I.D./PPC

CDSS Country Development Strategy Statement

CET Common External Tariff

CIP Commodity Import Program

CP Condition Precedent

CT Cash Transfer, a component of A.I.D.'s ESF Program

DA Development Assistance

EFF (IMF) Extended Fund Facility

EMO Export Marketing Organization

ESF Economic Support Funds

FY Fiscal Year

GDP	Gross Domestic Product
GOJ	Government of Jamaica
IBRD	International Bank for Reconstruction and Development, or World Bank
IDB	Interamerican Development Bank
IMF	International Monetary Fund
JADF	Jamaica Agricultural Development Foundation
JAMINTEL	Jamaica National Telephone and International Telecommunications Company
JCTC	Jamaica Commodity Trading Corporation
JIDC	Jamaica Industrial Development Corporation
JNEC	Jamaica National Export Company
JNIP	Jamaica National Investment Promotion. Ltd.
LAC	Bureau for Latin America and the Caribbean
LAC/DP	Latin American and the Caribbean/ Development Planning
LDC	Less Developed Country
MOF	Ministry of Finance
MOH	Ministry of Health
NCB	National Commercial Bank
NIBJ	National Investment Bank of Jamaica
PAAD	Program Assistance Approval Document
P&E	Production and Employment Agreement, the basic "contract" for ESF Cash Transfers in the Jamaican context
PIL	Project Implementation Letter
PL 480	U.S. Public Law 480
PP	Project Paper
PVO	Private Voluntary Organization
SAL	(World Bank) Structural Adjustment Loan

SDR Special Drawing Right

USAID United States A.I.D. Mission

I. INTRODUCTION AND EXECUTIVE SUMMARY

The Cash Transfer (CT) component of A.I.D.'s Economic Support Fund has expanded considerably over the past decade, giving rise to scrutiny by several groups concerned with the nation's foreign aid program -- a scrutiny complemented by the interest of A.I.D. itself in the effectiveness of the Cash Transfer mechanism as one means among many of fostering economic development abroad. A description of the development of the worldwide A.I.D. Economic Support Fund (ESF) program was included in the first evaluation of this series (the Costa Rica Cash Transfer Evaluation) and need not be repeated here. The present study is limited to the analysis of the effectiveness and economic development impact of the Jamaica CT program.

Chapter II of this report outlines the evaluation methodology employed by the project team and Chapter III provides a description of recent macroeconomic trends in Jamaica as background to the study. The CT program itself is the subject of Chapter IV and V, the former describing the program mechanism and the latter dealing with conditionality. The remaining chapters deal with specific impacts and goals of the Jamaica ESF Cash Transfer Program, including its relationship to multilateral policy programs and the Government of Jamaica (GOJ) economic policy reform program. The final chapter contains the conclusions reached by the evaluation team, along with an analysis of the policy dialogue process between the GOJ and the international policy agencies.

The remainder of this introduction consists of a description of the background and objectives of the Jamaica CT program and a summary of the results of the evaluation.

Background

From 1973 to 1980, the Jamaican economy underwent a severe economic decline owing to an inward-looking, protectionist policy regime combined with programs to improve social conditions which greatly expanded the sphere of government activity. From 1973-76, deficit spending and inflation rose sharply, spurring capital flight and an exodus of professionals and skilled personnel. Externally, a worsening balance of payments situation was aggravated by the oil price increase in 1974. Imposition of a tax levy on production of the country's leading export commodity, bauxite, resulted in a decline of investment in the industry that was to cost the country heavily in terms of its share of the world market. In 1977 an IMF Extended Fund Facility (EFF) credit was arranged and an effort made to rein in deficit spending. However, the effort proved too little and too late to stop the general deterioration. In 1979, severe floods set back the agricultural sector, and a fresh round of oil price increases added further impetus to inflation, and put renewed pressure on the balance of payments. With the unemployment rate reaching 28 percent, and worsening economic conditions, the country was beset by social unrest.

For the 1973-80 period GDP declined by 18 percent and manufacturing output fell by 28 percent. In 1980 the government's fiscal deficit was 16 percent of GDP, reserves of the Bank of Jamaica stood at minus US$543 million, and the debt service ratio (debt service payments as percent of exports of goods and services) had reached 16 percent. The 1980 elections brought to power a new government expressing commitment to export-oriented, private sector development; in effect, a reversal of the previous situation. Foreign donors, including the United States, were asked to provide substantial aid in order to restore balance of payments equilibrium and to provide support for the policy reforms.

Rationale for U.S. Assistance

Because of its geographic proximity, extensive trade and investment relationships, increased regional security concerns, and democratic form of government, the Government of Jamaica was viewed as an ally that could play a key role in the achievement of U.S. objectives in the Caribbean basin. Thus, starting in 1981, the United States introduced a new ESF Cash Transfer program. From FY 1981 to FY 1987 $396 million of ESF and CBI funds were provided to support economic stabilization, and later, structural adjustment.

The principal objectives of A.I.D.'s assistance to Jamaica are to assist the GOJ to (1) stabilize the Jamaican economy while minimizing the contraction in domestic production and employment; (2) support structural reforms necessary for broad-based economic growth; and (3) ease the burden of adjustment for the most vulnerable segments of the population.

The A.I.D. Jamaica Cash Transfer program focuses on reforms designed to reduce government involvement in commercial enterprises, reduce government controls and disincentives on production and investment, maximize the role of the private sector in national development, and encourage export-led growth. Central to this strategy is increased reliance on market mechanisms to determine the allocation of resources, and rational sectoral interventions to increase exports and generate employment.

Beginning in 1981, A.I.D. encouraged GOJ stabilization measures by linking CT conditionality to IMF fiscal and monetary reforms. In 1982, the World Bank began a lending program focusing mainly on structural adjustment. In 1983, A.I.D. added structural reforms, and in 1984, with termination of direct linkage to IMF conditionality, the CT system formally became a program of structural reform, though informally, A.I.D. continues to support IMF stabilization programs. Following is a summary of reforms and principal GOJ actions.

Economic stabilization, comprising fiscal, monetary, and exchange rate measures to reduce the budget deficit, limit monetary expansion, encourage exports, and limit import demand

The GOJ was slow to implement stabilization policies, falling out of compliance with the IMF performance criteria in 1982/83 and 1983/84. However, by 1986/87 the GOJ had made major improvements in stabilization policies. The exchange rate moved from a fixed rate to a multiple-rate system and then to a unified floating rate in 1985, and the competitiveness of the exchange rate was markedly improved. The fiscal deficit was also improved, by reducing central government expenditures and improving the efficiency of public enterprises. These expenditures fell from 19.6 percent to 5.5 percent of GDP over the same period. The money supply was restrained by a number of actions, including restrictions on credit expansion, and consumer price inflation declined from 21.1 percent to 7.7 percent. However, because the GOJ waited until 1984/85 to take effective stabilization measures, the adjustment process was more difficult and the negative impact on growth greater than if reforms had been made earlier.

Overhaul of the income tax system

Under the old system, personal and corporate income taxes were complicated, inequitable, and regressive. The system discriminated against equity investment and encouraged evasion and avoidance. It was replaced with a simplified, broad-based tax system, with a single flat rate of 33 1/3 percent that eliminated almost all exemptions, credits and loopholes. The new system has been well received, reducing tax avoidance and generating increased revenues even though the changes were intended to be revenue neutral. Jamaica's tax reform has been a major A.I.D./GOJ policy success.

Divestment of public sector commercial enterprises

Although all divestment actions called for in the Cash Transfer agreements have not been achieved, the government has privatized a broad array of public sector enterprises, including many that were not on the A.I.D. list. Government savings from the sale and lease of assets and the reduction in subsidies have been substantial. Government-owned shares sold on the stock exchange were equal to 20 percent of the market's total value.

Reduce subsidies and improve the market mechanism by eliminating commodity price controls

Rice and powdered milk prices have been decontrolled. Price ceilings on many other items were removed during 1980-85, but were reinstated in 1986. GOJ subsidies to the Jamaica Commodity Trading Corporation (JCTC) accordingly continue. JCTC exerts additional market control by virtue of its monopoly on imports of numerous essential commodities.

Encourage agricultural exports through deregulation of Export Marketing Organizations

The GOJ terminated the right of EMOs to serve as the sole purchasing agents for bananas, coffee, cocoa, and citrus; the marketing functions of EMOs were separated from their non-marketing functions; and price formulas were developed, designed to ensure fair returns for those growers still selling through EMOs or other agencies. Increased investments in the banana, coffee, and citrus industries can be attributed mainly to deregulation of the EMOs.

Remove import restrictions and rationalize the import duty system

Quantitative restrictions have been reduced from 364 items in 1980 to about 55 items at present. Remaining restrictions are confined mainly to items of a security or health nature; agricultural products (mainly fruits and vegetables); and a number of items (including essential foodstuffs and motor vehicles) imported by the JCTC. The maximum effective import duty rate has been reduced to 68 percent from up to 200 percent. Anomalies in the system persist, with effective import duties on consumer products sometimes lower than those on capital goods used for domestic manufacture. The GOJ has stated its intention of achieving a basic 10-20-30 percent tariff structure for raw materials, capital goods, and consumer goods, respectively, by 1988. Reforms in this area are undoubtedly a factor in the impressive increase in exports of manufactures in recent years.

Encourage private investment by streamlining the investment approval process and removing bureaucratic obstacles

Studies have been completed of the investment climate in Jamaica. The GOJ has formed a Joint Investment Committee composed of members from relevant ministries. The three bodies involved in investment promotion, JNEC, JNIP, and JIDC, have been placed under one agency but have not been merged in practice. Results of promotion efforts are hard to measure, but investment approvals have increased since 1984 and export promotions have contributed to sales.

Progress in Nontraditional Exports

The basic thrust of A.I.D.'s structural adjustment strategy has been to increase economic growth by shifting the Jamaican economy from its long-standing import substitution bias to an emphasis on export-led growth. The removal of quantitative import restrictions, restrictive marketing regulations, and price controls were intended to promote expansion, especially of nontraditional manufactured and agricultural exports. As an indication of response to these measures, as well as to the exchange rate devaluation, nontraditional exports rose from US$148 million in 1980/81 to US$182 million in 1986/87. Nontraditional exports to non-CARICOM markets have more than doubled, from US$80 million to US$173 million during the same period.

Equity Impact

Available evidence indicates a considerable drop in living standards since GOJ adoption of a strong stabilization program that began in 1984/85, although far less of a decline than that of the 1970s. Real per capita GDP declined by 8 percent during 1983-86, and budget cuts have fallen heavily on social services, particularly education and health. Nevertheless, retrenchment in government spending was inevitable because of the prior imbalance. A.I.D. Cash Transfer assistance almost surely reduced the amount of austerity required. Through other components of its overall program, A.I.D. has endeavored to cushion the impact of stabilization and structural adjustment. Most notable has been the food stamp program funded under provisions of the P.L. 480 Title I Program.

Local Currency Funding

Local currency counterpart funds have been attributed to portions of the GOJ budget, as agreed jointly by the GOJ and USAID. A.I.D.-funded projects have first priority in this process, followed by other donor projects. Although dollar assistance does give rise to local currency creation, the process is not inflationary as long as the U.S. dollar funds are spent on imports.

Relation to IMF and World Bank Programs

Coordination between A.I.D., the IMF, and the World Bank has been extremely close. Although A.I.D. and the World Bank do focus on some of the same policy areas -- trade liberalization, market and price decontrol, and divestment -- their efforts have not conflicted.

The Policy Dialogue Process

With the arrival of the present Mission Director in 1985, the nature of the policy dialogue between USAID and the GOJ underwent a pronounced change. Previously, Program Agreements contained highly detailed conditionality, which resulted in friction and confrontation when performance targets were not met. P&Es VI and VII (Jan. 1986 and Feb. 1987 Cash Transfers), on the other hand, contain no explicit conditionality other than to stipulate that the GOJ will remain in compliance with the program. Policy directions are well understood, and USAID monitors closely the progress of reforms. It is too early to state that the new approach is inherently superior to the old, and other factors outside the process itself doubtless play a role. Thus far, however, the process has worked well.

Prospects for Self-Sustaining Growth

Jamaica's prospects for gradually reducing the current account deficit and moving toward self-sufficiency will depend on maintaining financial stability, somewhat precariously achieved in 1986-87, and continuing to expand nontraditional exports. Financial stability is treatened by the external debt. As the result of a very large inflow of official foreign capital in the early 1980s and the collapse in bauxite earnings beginning in 1982, Jamaica's external debt has risen from US$1.2 billion in 1980 to about US$3.5 billion presently. The situation requires annual debt rescheduling, and a rising burden of interest payments ($305 million in 1986/87) that more than accounts for ongoing current account deficits. Expanding nontraditional exports will require removal of the remaining constraints on growth in agriculture and export-oriented manufacturing industries. Though much progress has been made, much remains to be done, especially with tariff and tax rationalization and price controls. The outlook is reasonably good, if external circumstances remain favorable for Jamaican exports, and if the internal political climate remains favorable for reform.

Conclusions and Lessons Learned

Following are the conclusions and principal lessons learned from the evaluation process.

1. Events of the 1980s have brought home the tremendous importance of external factors to a country's development course. In Jamaica's case, the collapse in the world bauxite market has overwhelmed all other factors, and greatly complicated the task of domestic reform. Donors need to remain cognizant of the limitations external factors place on achieving structural adjustment and policy reform objectives.

2. Related to 1., donors should be more circumspect about lending vast sums of money too quickly to countries with vulnerable "one-crop" economies, such as Jamaica. The major donors not only did not foresee the 1982 recession, let alone its potential impact on world commodity markets, but in Jamaica's case, premised their post-recession aid on a strong recovery in the bauxite market after 1982. Nevertheless, the intial approach in Jamaica was optimistic. Because less was demanded in the early phase of the program, more had to be

done later, particularly on the exchange rate and fiscal policy.

3. Although the GOJ has made a lot of progress toward removing marketing, price, and import controls, not all actions called for under USAID and World Bank programs have been fully undertaken. However, this is not for lack of trying; the GOJ has done about as well as could have been expected with its limited resources. Moreover, entrenched attitudes and systems do not yield easily to new ideas and decrees, no matter how sensible in concept they may be. Maintenance of progress toward policy reform goals may well be more important than meeting specific targets at specified times.

4. As necessary as they were for restoring stability and providing a basis for growth, and notwithstanding the dollar support provided, the austerity programs of 1984-86 have resulted in declining living standards and a deterioration in social services. To some extent, this was to be expected. However, donors might have done more to lessen the effect of the reforms on the poorest parts of the population. Policy interventions to influence the selection of budget areas for reductions might be considered in future programs of this type.

II. EVALUATION PROCEDURE

The basic analytical methodology employed in this evaluation, as well as its underlying assumptions, is consistent with that of the entire series of CT evaluations. That methodology is explained in detail in the first report of the series (the Costa Rica Cash Transfer Evaluation) and will not be presented anew here. Its principal elements are as follows.

- We organize both descriptive and analytical material into categories corresponding to types of performance indicators. This approach applies to economic, policy-oriented, and administrative information and analysis.

- Program impact and analysis differentiates between policy and institutional effects on the one hand and economic development on the other. We expect economic development trends to lag policy changes in a variable manner.

- We describe A.I.D. Cash Transfer programs separately from World Bank and IMF programs for clarity, but we impute differential impact to those programs only when absolutely clear linkages can be identified. We expect such linkages to be more common at the level of public policy than at that of economic performance.

- We separate the analysis of the USAID local currency programs from that of the A.I.D. transfer of dollars. These programs are often implemented at the macroeconomic level, with objectives and impacts different from those of the original transfer of dollars to the host country Central Bank. Although specific projects may have microlevel impacts, however, we address them in terms of the policy categories presented above.

- We utilize formal statistical models of the host country economies when those models are sufficiently specified and disaggregated to allow testing of hypotheses concerning specific performance indicators. Otherwise general statistical trends are preferable to modelled conclusions.

- Interviews, while structured according to performance indicator groups, focus on policy impacts and administrative procedures of the CT programs rather than on final economic impacts. Although subjective orientation might bias a respondent's report of actual economic impacts, that orientation is precisely what we hope to measure as we analyze policy impact and administrative procedures.

- We assume that the basic international economic policy goals embodied in A.I.D., IMF, and IBRD programs are themselves defensible, and we do not attempt to analyze their fundamental desirability.

- We conceive of the LDC external debt problem as a worldwide phenomenon not specific to CT recipients and unlikely to be resolved by the CT program. Its existence both before and after Cash Transfers is therefore is not a reflection on the effectiveness of the program.

For a more complete treatment of this methodology, see Appendix A of the Costa Rica report.

The evaluation procedure employed here proceeds in four stages: (1) identifying and defining the individual parts of A.I.D.'s conditionality package and placing them into policy categories; (2) comparing A.I.D. conditionality to World Bank and IMF programs; (3) assessing compliance with donor conditions within each policy area; and (4) assessing the developmental impact of GOJ policy actions within each policy area.

Policy Categories

The Jamaican Cash Transfer program has provided immediate balance of payments aid in support of GOJ policy reforms in a number of areas. The policy reform component of the program is designed to address fundamental stabilization and structural problems which have inhibited economic performance and have led to the country's balance of payments problems. From 1981 to 1987 the Jamaican Cash Transfer program has included some 67 covenants, conditions, and understandings covering a broad range of economic issues. For purposes of this study, conditionality has been categorized into three main policy areas with seven sub-divisions, as follows.

Economic Stabilization

1. Fiscal, Monetary, and Exchange Rate Policies

This area refers to the measures and related performance targets arising under IMF programs. A.I.D. required the GOJ to comply with Bank/Fund conditions as a condition of Production & Employment Agreement (P&E) I through IV.A, from 1981 to 1984. Cross-conditionality with the Fund and the Bank was not included in P&E V-VII, for the 1984/87 period.

Structural Adjustment Measures

2. Tax Reform

3. Public Sector Divestment

Promotion of Private Sector Development

4. Market and Price Deregulation

5. Agricultural Export Promotion

6. Import Restrictions

7. Private Sector and Trade Promotion

Policy categories, and even policy sub-divisions, overlap in their nature and intended effects (e.g., tax reform is a structural adjustment measure which may improve economy-wide growth prospects, raise government revenues, and provide incentives for private sector development). For analytical purposes, the rationale for the grouping above is to separate policies pertaining specifically to private sector development from those affecting structural adjustment in the broader sense of the term.

Program Performance and Development Impact

Within each policy area, one or more performance indicators were specified (e.g., improved fiscal situation or exchange rate changes). Program performance was assessed on the basis of actions taken by the GOJ to effect policy changes and to comply with program conditions. In other words, CT Program performance was evaluated on the basis of changes in particular performance indicators. Evaluation of the economic impact resulting from the policy changes is more difficult. In many cases, there has been insufficient time for a measurable economic impact to have occurred as a result of policy changes. Impact analysis, therefore, is a judgmental matter involving assessment of progress made to date and the likelihood of progress to come.

The process can be illustrated as follows.

Policy Change: Reduce quantitative import restrictions and rationalize the tariff system

Indicators of Policy Change:
Quantitative restrictions reduced; maximum effective tariff rate lowered from 200 percent to 68 percent

Economic Development Effects: Manufactured goods exports increase

Interrelated Policy Programs

The policy agendas of A.I.D., the World Bank, and the IMF are closely related, and on many points, identical. Consequently, attribution of the impacts of reform measures among the donor agencies often is impossible. In the perspective of this study, A.I.D., the IMF, and the World Bank are viewed as jointly assisting the GOJ to establish a policy environment conducive to economic stabilization, future growth, and private sector development. Where A.I.D.'s conditionality and policy reform objectives are inseparable from IMF and World Bank programs, the study assesses A.I.D.'s contribution to forwarding the overall process of economic restructuring and policy reform. Where A.I.D. conditionality can be identified as unique, as in portions of P&Es V, VI and VII, particular attention is given to the impact of ensuing reform measures.

III. MACROECONOMIC TRENDS

Introduction and Background

Jamaica is a fairly well-endowed country of 2.2 million people with a per capita GDP of about $1,150 (in 1984). The country advanced rapidly from the time of its independence in 1962 until the early 1970s on the strength of its bauxite resources, tourism, and the traditional export crops, sugar and bananas. The benefits of growth were not, however, well dispersed, and a sizeable proportion of the population existed on subsistence agriculture or was partially or totally unemployed. A high degree of tariff protection supported the small, generally inefficient manufacturing sector. In other respects, the economy was both open in terms of labor and capital flows, and highly dependent on external trade. Then, as now, exports accounted for 25 to 35 percent and imports for 40 to 50 percent of GDP, and the economy was and remains almost wholly dependent on imported oil for its energy requirements. Lacking a strong domestic production base and heavily dependent on world markets, the economy was highly vulnerable to the external shocks to come.

1973-80

During the period 1973-80, the government attempted a comprehensive social reform. Land redistribution, direct measures to relieve unemployment, and extensive government intervention in areas such as agriculture and tourism, which had previously been left to the private sector, were major elements in this effort. The import-substitution policies of the 1960s were extended through a proliferation of licensing controls. Food subsidies and an overvalued Jamaican dollar penalized agriculture and confirmed the government's generally inward-looking, protectionist outlook. Further, the bauxite sector was crippled by the imposition in 1974 of a production levy which had a devastating long-term impact through its discouragement of new investment.

Reflecting the government's emphasis on social programs, expenditures on both current and capital account rose sharply during 1974-76, bringing the deficit/GDP ratio from 8.6 to 19 percent in those two years. With the balance of payments situation worsening dramatically, partly as a result of the upsurge in world oil prices beginning in 1974, sources of external credit dried up and government budget deficits were increasingly monetized. The resulting surge in consumer price inflation, to a peak of 35 percent in 1978, contributed to general social unrest, capital flight, and a growing exodus of skilled workers and professional people. In 1977/78, the government undertook a number of revenue and control measures within the context successful. By 1978/79, the fiscal deficit stood at 17 percent of GDP.

GDP declined in every year during 1973-80, falling a total of 18 percent. All sectors shared in the setback, except for the bauxite sector which managed a slight output gain despite the levy. The protected manufacturing sector, proving unable to compete in foreign markets and hurt by a shortage of inputs owing to the foreign exchange crisis, fared worst of all; manufacturing output fell at an average annual rate of 3.9 percent during the period.

Points of Vulnerability, 1980

Among the weaker aspects of the Jamaican economy in 1980, the following four in particular stand out:

a. The country's fiscal situation was extremely vulnerable because government spending had risen from 25.4 percent of GDP in 1972 to 43.1 percent in 1980. The expansion had been financed by the bauxite levy and by substantial foreign borrowing. Neither option was sustainable.

b. By 1980, gross domestic capital formation was only 15.5 percent of GDP, down from 31.5 percent in 1973. The economy had undergone a considerable capital destocking that would have to be reversed in the 1980s

c. The country's export sector had become more dependent on bauxite, and otherwise less diverse than in 1973, as indicated in Table 1 below:

Table 1 - Exports by Category, 1973 & 1980

(Percent of Total)

	1973	1980
Bauxite and Alumina	63.6	76.0
Manufactures (excl. sugar)	16.0	10.6
Sugar and bananas	14.7	6.6
Other agriculture	2.6	1.7
Reexports and other	3.1	5.1
	100.0	100.0

d. The country's external position had greatly deteriorated. The large and sustained current account deficits had been financed by running down reserves and large-scale borrowings abroad. During 1973-80, net international reserves declined from US$37 million to minus US$532 million, and the external debt reached US$1.3 billion (70 percent of GDP), with a debt service ratio of 16 percent.

Policy Reform and Output Trends, 1980/81 - 1986/87

The 1980 elections brought to power a new government expressing commitment to private enterprise, export promotion, and sound management of the country's finances. For purposes of assessing policy reform, two distinct periods can be identified: (1) 1980/81 to 1983/84, during which initial enthusiasm and a degree of economic growth gave way to renewed strains characterized by a general reluctance to undertake needed reform measures; and (2) 1985/86 to the present, characterized by retrenchment, renewed attention to structural reform, and toward the end of the period, renewed growth.

1980/81 - 83/84

Private capital that had fled during the 1970s began to flow back in the initial reaction to the 1980 election, and official capital began to be mobilized on a large scale. In 1980/81, the IMF agreed to a three-year, SDR 477 million credit under its Extended Fund Facility, and the United States agreed to the first two (totalling $78 million) of its ESF Cash Transfer grants. Aided by a record year for bauxite earnings, Jamaica managed a $161 million balance of payments surplus and a strong gain in imports. Official capital inflow rose sharply in 1981/82 and 1982/83, but the effect was more than offset by a sharp decline in bauxite earnings following the collapse of world bauxite prices in 1982. Imports continued to rise strongly, however, leading to very large current account deficits in both years. Domestically, the government pursued a relatively expansionary fiscal policy, especially in the area of capital expenditures, causing an increase in monetary expansion that put additional pressure on the overvalued

Jamaica dollar. A parallel rate market was formalized in January 1983, followed by the adoption of a unified rate in November 1983 and the initiation of an auction system in February 1984. At the end of 1983/84, the J$:US$ rate stood at 3.368, representing a 69 percent devaluation since December 1982. However, the degree of devaluation permitted was less than that warranted by market forces. By 1983/84 the government had begun to rein in imports, but in doing so opted for an extension of licensing controls, buttressed by a tight credit policy, rather than a full devaluation that would have brought prices of imported goods into line with domestic prices.

In November 1983, the IMF declared the GOJ out of compliance with the terms of the EFF as of September 30, 1983, owing to an accumulation of commercial arrears and violation of the ceiling on credit advances to the public sector. In 1983/84, the government's overall deficit (Central Government, public entities, and Bank of Jamaica) reached 19.6 percent of GDP, crowding out private investment, and causing capital flight to re-occur on a large scale.

1984/85 - 86/87

With the signing of a new IMF Standby Agreement in June 1984, the GOJ committed itself to a major adjustment effort that took account of the diminished prospects for the bauxite industry and the country's rapidly rising external debt. Large-scale foreign assistance was marshalled to support the program, including $535 million of debt rescheduling by Paris Club creditors.

Expenditure reductions in the ensuing two years fell heavily on basic infrastructure and social services, and on current expenditures, including substantial reductions in government employment. Primarily as a result of these measures, the overall public sector deficit was reduced from 19.6 percent of GDP in 1983/84 to 13.8 percent in 1985/86. Structural adjustment was accelerated during this period through reductions in import and price controls, and export promotion measures (see further Chapter V). The bauxite levy was reduced in an effort to spur production in that sector. The exchange rate was allowed to float freely, and moved to a low of 6.40 in October 1985 before being brought back to 5.50 through GOJ intervention. The combination of tighter money and devaluation produced import declines and balance of payments surpluses in both 1984/85 and 1985/86. Devaluation, in combination with utility price increases, pushed up the rate of inflation. The rate of increase in consumer prices accelerated from 14.7 percent in 1983/84 to 29.7 percent in 1984/85, before subsiding to 24.2 percent in 1985/86.

As a result of GOJ austerity measures, GDP declined by 1.4 percent in 1984/85 and a further 4.0 percent in 1985/86. Unemployment remained at about 25 percent, which, however, included those out of work but not seeking employment. If such people are excluded from the data, which would be closer to the standard practice, Jamaica's unemployment rate averaged 12.5 percent in 1985, then dropped to 10.9 percent in 1986 and 8.6 percent in 1987. Moreover, considerable employment had shifted from the public to the private sector; government employment was reduced by 22,000 in 1984/85.

By the end of 1985/86, the deficit:GDP ratio and inflation were much reduced, the exchange rate was stabilized at 5.50, and commercial arrears had been eliminated. The GOJ continued its policy of budgetary restraint through 1986/87, bringing the deficit to GDP ratio down to 5.5 percent and the inflation rate to 7.7 percent. At the same time, however, it was able to permit a progressive easing of credit to the private sector (see Annex A), and continued to make good progress in the various areas of structural adjustment. Important steps were taken with respect to divestment and tax reform.

A number of promising trends had been underway even during the period of GDP decline in the mid-1980s. For example, revenues from tourism rose from US$230 million in 1980/81 to US$515 million in 1986/87, owing mainly to privatization in the hotel industry beginning in 1981 (see Chapter V); and exports of manufactured goods rose steadily, especially exports to the United States, which increased from US$16.6 million in 1982 to US$129.6 million in 1986. By 1986/87, the response to the improved economic climate had become general. GDP in that year rose by 3.0 percent. In 1987/88, the GOJ permitted some degree of budgetary expansion and there has been talk of "overheating," with GDP growth for the year estimated at 4 to 5 percent.

In short, the Jamaican economy has been able to achieve a measure of stability and a fair degree of economic growth. However, the country remains highly dependent on external developments, both for continued growth of exports and for the necessary refinancing of its huge external debt. The debt will be a significant constraint on the country's development for the foreseeable future. Chart 1 here

Table 2 - Key Economic Indicators, 1980/81 - 86/87
(% Annual Change)

				Prel.		
	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
GDP	1.9	1.5	1.7	-1.4	-4.0	3.0
Agriculture	0.8	-4.3	7.8	6.0	-1.7	-2.2
Mining	-8.3	-23.4	8.2	-11.7	-14.0	8.7
Manufacturing	2.6	5.6	0.4	-3.6	1.7	2.9
Construction	4.3	13.3	3.4	-9.1	-11.9	5.8
Electricity & Water	1.3	5.0	6.7	1.5	1.1	
Services	3.2	3.4	0.4	-	4.2	2.4
Of which:						
Government	0.6	2.1	-1.8	-0.1	-8.9	-1.7
Hotels, etc.	3.4	13.2	8.0	7.4	1.0	
Money Supply (M2)	28.7	25.0	25.0	20.0	24.3	23.6
Consumer Prices:						
Annual Avg	.9	.07	.114	.7	29.7	24.2
End-year	7.4	8.2	21.1	29.7	19.8	7.7

(% of GDP)

Gross Dom. Cap. Formation	18.1	20.0	20.5	21.1	22.2	18.8
Public	6.8	7.5	4.9	3.2	2.7	4.4
Private	11.3	12.5	15.6	17.9	19.5	14.4
Overall Public Sector Balance	-15.9	-15.7	-19.6	-15.1	-13.8	-5.5
Balance of Payments on Current Account	-14.6	-15.7	-9.1	-10.6	-11.9	-3.2
External Debt	71.1	73.3	91.1	136.2	160.7	126.9
Debt Service Ratio (Debt payment as % of exports of goods and services)	28.6	45.8	42.0	45.8	66.3	69.7
Avg. Annual Exch. Rate (J$ per US$)	1.7	81.7	82.4	74.36	5.65	5.50
Real Effective Exch. Rate Index (1980=100)	110.0	102.6	75.1	63.9	68.1	68.6

Sources: Bank of Jamaica, IMF, World Bank

Chart 1 depicts GDP growth, total and per capita, from 1972 to 1987. Table 2 contains key macroeconomic indicators for 1981/82-1986/87. Annex A covers macroeconomic developments by sector. Chapter V contains a more detailed look at stabilization and the growth of the external debt as well as an examination of the process of structural adjustment during the period under review.

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IV. THE CASH TRANSFER MECHANISM

Components of the USAID Jamaica Cash Transfer Program

The Jamaican Cash Transfer Program includes three elements --- the dollar funds, policy conditionality, and the programming of local currency generations.

Dollar Funds

Each Cash Transfer Agreement (P&E) includes a number of procedural and policy conditions. When the conditions are satisfied, A.I.D. disburses U.S. dollars into the GOJ's U.S. bank account. Prior to February 1987, the dollars were untied and could be used by the GOJ either to finance imports or for debt service payments. While the Cash Transfer dollars were untied, the GOJ had to provide ex post evidence that an equivalent amount of U.S. source imports was provided to the Jamaican private sector. In effect the dollars were attributed to U.S. source imports. Since more than 50 percent of Jamaican imports (some $500 million a year) came from the United States, U.S. source attribution was not a problem. Thus, by proxy the Cash Transfers financed U.S. imports of critical raw materials, spare parts, and capital equipment.

Under new procedures, in effect since February 1987, the GOJ must maintain a separate dollar account to allow accurate monitoring and accounting of funds. ESF Cash Transfer disbursement will go into and expenditures will come out of this account. In addition, A.I.D. and the GOJ will negotiate specific uses for the dollar funds. The first uses of the dollar Special Account (April 1987) were for payment of debt service obligations. It is expected that future uses will be limited to the financing of U.S. source imports. Before Cash Transfer funds are disbursed, the GOJ will have to provide the A.I.D. Mission with import documentation that demonstrates that U.S. source imports have already taken place. Under this new procedure, the Cash Transfer funds will provide financing of specific imports rather than the attribution process used in previous years. In effect the new system will move the program closer to that of a CIP.

Policy Reform Conditionality

As is the case in many developing countries, Jamaica has been in need of policy reforms to restore growth and creditworthiness. New policies have been needed to effectively increase productivity, exports, savings, investment and social services, to curb inappropriate subsidies, and to curtail the growth of inefficient public sector institutions. The goal is an efficient, market-oriented economy that will respond effectively to international prices and demand. The required reforms generate economic and political costs. A.I.D. Cash Transfers have been a means of providing the support for the government to implement policy reform and help to offset part of those costs. Each Cash Transfer has included a series of economic policy conditions, upon which disbursement of dollar funds has depended. The conditionality is described in detail in Chapter V below.

Programming of Local Currency

The Cash Transfer dollars generate an equivalent amount of local currency. The local currency is deposited into a Special Account at the Bank of Jamaica and is then used to fund portions of ongoing development projects jointly agreed upon by A.I.D. and the GOJ. The local currency does not constitute an additional resource, and projects identified are neither specifically designed as A.I.D. projects, nor additional to those the GOJ would undertake in the absence of a Cash Transfer program. The process could be best categorized as "budget attribution."

V. A.I.D. CONDITIONALITY AND POLICY REFORM

In this chapter we examine the policy reform measures supported by the U.S. dollars. The first section covers the area of stabilization, i.e., fiscal, monetary, and exchange rate measures designed to provide stability and a basis for economic growth. The second section covers two principal areas of structural reform, divestment and taxes, and the final section covers four other areas of structural reform, grouped together under the general heading of Trade and Private Sector Development.

Stabilization

The Problem

By 1980, following seven years of protectionist policies and social experimentation under the outgoing government, the Jamaican economy was in a severe state of decline. The extent of the decline and the factors contributing to it are discussed in Chapter III above. In an abrupt reversal of the policy trend prevailing until that year, the 1980 elections produced a clear mandate for a pro-private enterprise, export-oriented policy course, and for restoration of the country's finances. In the first instance, this would require reductions in inflation, stabilize the currency, and restore investor confidence. Given the severe decline in living standards and consequent social unrest already witnessed, it was evident that economic stabilization could not be achieved without substantial external support. Large-scale foreign aid would be needed to finance imports of agricultural imports, raw materials, and capital goods needed by a manufacturing sector that had undergone years of destocking, and necessary consumer goods, as well as to service the country's existing foreign debt.

The purpose of the initial stabilization aid, from the IMF as well as A.I.D., was therefore to help stabilize the Jamaican economy, to provide the country breathing room within which essential reforms could be effected. The SDR 477 million IMF Extended Fund Facility (EFF) credit, to which the initial Cash Transfer (Production and Employment or P&E grant) was linked through cross-conditionality (see below), was to run for a term of three years, in the expectation that at the end of that period, the Jamaican economy would be self-sustaining. The collapse in the bauxite market in 1982 was to put an end to that possibility, and balance of payments support from the World Bank, as well as the IMF and A.I.D., would continue to the present time.

Since all Cash Transfer (P&E) Agreements have had balance of payments support as a primary objective, all can be considered stabilization aid. However, only P&E I-IV.A during 1981-84, were linked through cross-conditionality either with an IMF stabilization credit, or a stabilization-related provision of a World Bank Structural Adjustment Loan. Conditionality

P&E grants I-IV.A called for GOJ agreement with the IMF, or meeting specific conditionality requirements of the IMF and the World Bank. P&E III-IV.A, it should be noted, contained provisions additional to those of a purely stabilization nature. This section deals only with the stabilization-related requirements regarding each credit.

In so far as stabilization was concerned, P&E Agreements I through IV.A were linked to IMF or World Bank programs -- the Extended Fund Facility of 1981, the successor IMF Standby Agreements of 1983 and 1984, and the World Bank's first Structural Adjustment Loan (SAL) of 1982. There were basically two types of linkage. P&E I, agreed to in January 1981, and P&Es IV and IV.A of November 1983 and May 1984, respectively, were based either upon IMF approval of a

GOJ economic plan (P&E I), or IMF certification to the effect that the GOJ had provided adequate assurances of policy reform measures to be taken (P&Es IV and IV.A). P&Es II, III, III.S, and the CBI Supplemental, on the other hand, called for substantial compliance with IMF and World Bank (in the case of the CBI Supplemental) performance targets stipulated under existing agreements. The performance targets varied according to circumstances, but the IMF agreements had in common limits with respect to bank credit expansion, the balance of payments (framed in terms of the reserve position of the Bank of Jamaica), and prohibitions against the accumulation of commercial arrears and the adoption of multiple currency practices. Their purpose was to reduce the size of the budget deficit, limit the rate of monetary expansion and price inflation, and restore equilibrium to the balance of payments.

It may be added that the practice of linkage to IMF or World Bank conditionality was terminated with passage of the Kemp-Kasten Amendment in 1984.

Performance

P&Es I to III.S, 1981 - 1983

The sole condition of P&E I was submission of an economic program satisfactory to the IMF. P&E II, the CBI Supplemental, and P&Es III and III.S, were linked through cross-conditionality to GOJ performance under the terms of the EFF of April 1981. All of the EFF drawings were made on schedule during the first two years of the credit (i.e., during 1981/82 and 1982/83), and the related P&E disbursements followed. While the fact of continuing EFF drawings satisfied the "substantial compliance" criteria for purposes of the P&E disbursements, the IMF itself was rather lenient in its determination as to GOJ compliance. In part, at least, this was due to the collapse in bauxite prices in 1982, which made it virtually impossible for the GOJ to meet certain of its IMF targets, such as the target for net international reserves and the limits on bank credit expansion. Early in 1983/84, that is, after all EFF drawings and P&E disbursements in 1981/82 and 1982/83, the IMF declared the GOJ out of compliance with a number of performance criteria as of March 31, 1983. Overall GOJ fiscal deficits in 1981/82 and 1982/83 were 16.4 percent and 15.2 percent of GDP, respectively, which compares with IMF targets for those years of 13.3 percent and 12.9 percent (the latter being a revised target). The balance of payments on current account was -20.5 percent and -23.9 percent of GDP, as compared with IMF targets for 1981/82 and 1982/83 of -9.9 and -9.5 percent, respectively.

P&Es IV and IV.A, 1983 - 1984

Shortly after the start of fiscal year 1983/84, the GOJ obtained an IMF waiver, and EFF drawings resumed under a new set of performance criteria. In addition to the usual criteria in the areas of credit expansion, net international reserves, etc., the 1983/84 Agreement called for a flexible parallel market exchange rate with a broadening of the market, and expanded the number of commodities to which it applied. The rate had been officially recognized in January 1983, presumably in compliance with terms of the World Bank's SAL I, approved in June 1982.

Two of the four 1983/84 EFF drawings were made on schedule, but the GOJ again fell out of compliance, failing to meet performance criteria as of September 30, 1983. The proximate cause of the 9/30/83 non-compliance was a breakdown in the exchange market, caused by GOJ refusal to let the rate float freely. Underlying this was the government's failure to compensate for shortfalls in export and capital inflows with tight controls in the fiscal and monetary areas.

Discussions on a new program with the Fund began in late 1983, and agreement was reached on a number of measures to be taken pending the establishment of a new Standby Agreement. This included a unified exchange rate system within an adjustable band set initially at J$3.15 = US$1.00. On the basis of this action, and GOJ agreement to take action in the other areas, as mentioned, P&E IV was agreed and disbursed. However, conditions continued to deteriorate through 1983/84. In an effort to lessen the impact of devaluation, the GOJ introduced food subsidies amounting to 1.3 percent of GDP. Although the impact of the food subsidies was partially offset by increased gasoline and electricity tariffs, the GOJ's budget deficit continued to rise, reaching 19.4 percent of GDP by the fiscal year end. The government turned increased licensing controls to curtail imports, and had some success in limiting the size of the current account deficit of the balance of payments. Nevertheless, with official capital inflow less than expected (partly because of the suspension of the EFF) and capital flight again on the rise, the overall balance of payments deficit widened to a record US$448 million.

In April 1984 the government formally requested a one-year Standby Agreement, and in May the IMF provided A.I.D. with certification to the effect that the GOJ was in basic agreement with the new terms, which would include a substantial reduction in the public sector deficit. The latter would be accomplished in large part through subsidy reduction, layoffs, and wage restraint. On the basis of the IMF certification, P&E IV.A was agreed in May 1984. The Standby Agreement itself took effect in June 1984.

1984/85 - 1986/87

P&E IV.A was the last of the CT Agreements to be linked to IMF conditionality. The IMF Standby Agreement to which it pertained marked a watershed in stabilization for the GOJ. The 1984-85 Standby (for SDR 64 million) was followed by a 22-month Standby (for SDR 115 million) in June 1985, and a 15-month Standby (for SDR 85 million) agreed to in March 1987. Although the GOJ did fall out of compliance in July 1985, the basic cause was a fresh collapse in bauxite earnings. The GOJ was able to obtain a waiver and resume drawings in January 1986. Compliance with IMF provisions has been observed since that time. The result can be seen in the following indicators, measuring progress toward stability from 1983/84 to 1986/87: decline in the overall fiscal deficit from 19.6 percent of GDP to 5.5 percent; decline in the rate of inflation from 21 percent to 7.7 percent; and a downward revaluation in the J$:US$ rate (from end of FY 1984) of 63 percent. Chart 2 depicts the movement of the nominal and real effective exchange rate during 1980-87. Annex A provides a chronology of the principal GOJ actions in the exchange rate area.

Overall Performance Summary

With due allowance for the exceptional difficulties caused by the collapse of bauxite prices in 1982, GOJ performance in the stabilization area during 1981/82 - 1983/84 left a lot to be desired. Beginning with the IMF Standby Agreement signed in June 1984, the situation took a dramatic turn for the better. GOJ performance since that time has been excellent, as attested by the indicators for the budget deficit inflation, and the exchange rate cited above. The turnabout in GOJ performance with respect to stabilization coincided closely with passage of the Kemp-Kasten Amendment, occasioning A.I.D.'s formal withdrawal from linkage with the IMF program. Not too much should be made of this, however, since A.I.D. has continued to exert its influence as a force for stabilization through the dialogue process, if not through formal conditionality. In short, neither the IMF nor A.I.D. was able to bring about a strong stabilization effort during 1981/82 - 1983/84, and A.I.D. deserves some of the credit for the successful GOJ effort since that time.

Economic Impact

The economic impact of P&E assistance arises partly from the GOJ's policy reform measures, partly from the impact of the dollar assistance itself. In this section we will also consider Jamaica's external debt burden, with the emphasis on the role of stabilization and structural adjustment aid (A.I.D., IMF, and World Bank).

Impact of policy reform

As discussed in Chapter III, little progress toward stabilization was made during the period from 1981/82 to 1983/84. Serious budget cutting and exchange rate reform began with the signing of the first IMF Standby Agreement in June 1984, and continued at least through 1986/87 (there has been some increase in real government spending during 1987/88). The GDP accounts, shown above in Table 2, reflect this progression. As summarized in Table 3 below, the record was one of moderate growth during 1981/82 - 1983/84, while the GOJ's fiscal position was being eroded; sharp decline during 1984/85 - 1985/86, under the impact of austerity; and a resumption of growth, with the restoration of stability, in 1986/87. Estimates available point to further growth, on the order of 3 to 5 percent, during 1987/88.

Table 3: Stabilization Indicators and GDP Growth
(Percentage rates of increase)

	81/82 - 83/84	84/85 - 85/86	86/87
Overall deficit: GDP ratio (annual avg.)	17.1	14.5	5.5
Net domestic credit in the banking system	31.7	16.5	N/A
Consumer price index*	12.1	24.7	7.7

J$:US$ rate*	23.7	27.8	-0-
GDP	1.7	-2.7	3.0

Source: IMF

The increase in GDP for the overall period, 1981/82 - 86/87, was 2.6 percent, or an average annual rate of only 0.4 percent. Unquestionably, the decline during 1984/85 - 86/87 was greater, and the growth for the entire period lower, than if the necessary measures of adjustment had been taken earlier.

Impact of Dollar Aid

A.I.D. Cash Transfer P&E assistance to Jamaica totalled $394 million during 1981/82-86/87, or 24 percent of all net foreign capital inflow received during that period. Using the technique employed in the so-called "Fresh Look" report commissioned by the GOJ in January, 1986, this amount of aid might have contributed a cumulative 1.8 percent to GDP growth during the period, not an insignificant amount considering that GDP growth during the same period amounted to only 2.6 percent. Furthermore, CT assistance has been of vital importance, at the margin, in Jamaica's balance of payments. For a country faced with the requirement to reschedule $250 to $500 million of maturing foreign debt each year, the importance of P&E aid cannot be underestimated. The Evaluation Team was reminded repeatedly of the crucial importance of this aid. Finally, and far from least, CT assistance is valued because, as a grant, it imposes no burden to be borne in future years.

The Debt Burden

Cash Transfer assistance has been on a soft loan or, since 1984, grant basis, so has given rise to only minor external debt repayment obligations. Other donor aid, however, is extended on relatively strict loan terms. This section examines the official foreign capital inflow and resulting external debt burden.

Foreign aid did not begin with the change of government in 1980. Jamaica was the recipient of substantial external assistance during the 1970s, and by the end of 1980/81 had already acquired an external debt of US$1.3 billion, equal to 70 percent of the country's GDP. IMF drawings outstanding as a percent of IMF quota were even then the second highest among IMF member countries (after Turkey). Much more was to come. The gross inflow of official foreign capital to Jamaica during 1981/82 - 86/87 amounted to US$4,045 million, or US$295 per capita per year, one of the highest such rates in the developing world. It is clear from a reading of the relevant IMF and World Bank documents that aid reached this scale not merely out of enthusiasm for the free enterprise tenets of the new Prime Minister, but because of a failure to foresee the collapse of the bauxite market in 1982. Thus, the IMF, in its analysis in support of the 1981 EFF credit, foresaw a 6 percent rate of increase in bauxite output (and presumably sales), with prices unchanged, during 1981/82-85/86. Nor did the 1982 slump have a chastening effect. In June 1983, the IMF projected a strong rebound from the 1982 collapse with bauxite earnings rising at 18 percent per annum through 1985/86. And the World Bank, in June 1984, projected an 18.5 percent rate of increase for the period 1983-90. Other donors followed the lead of the multilaterals and the aid inflow burgeoned. As discussed in Annex A, as large as the A.I.D. inflow was, it was considerably less than the cumulative decline in bauxite earnings itself.

When both the heavy aid inflow and the bauxite collapse materialized, continued heavy aid inflows were required, in part to service past flows. Chart 3 depicts the result as far as stabilization and structural adjustment aid from the IMF, World Bank, and A.I.D. is concerned. As can be seen, the IMF took more out of the country in 1986 than it put in, and will continue to do so, to the tune of more than $100 million annually for the next several years. With World Bank and U.S. aid turning downward, the net flow of stabilization and structural adjustment aid has turned negative. The overall situation is one of generally declining flows of new Chart 3 here money, and a generally rising flow of debt rescheduling which is more or less forced by the rapidly rising trend of debt falling due. But given budgetary constraints, especially in the United States, new money is hard to come by. Thus, Paris Club creditors are convened virtually every year for debt rescheduling. Debt rescheduling in 1986/87 amounted to $315 million, considerably more than the inflow of new money in that year. At the end of fiscal year 1986/87, medium- and long-term debt outstanding amounted to 130 percent of GDP and the debt service ratio was a crushing 66 percent. The country's external debt will limit growth prospects for the foreseeable future.

Structural Adjustment

Divestment

The Problem

Starting in the early 1970s, the size and the role of the public sector expanded rapidly to encompass a wide variety of economic functions. The expansion reflected the previous government's policy of promoting the role of the state in the economy, creating employment and expanding social and economic services. By 1982 there were 537 separate statutory bodies which included more than 200 public enterprises, 230 statutory boards, and a variety of other agencies and entities. In addition to normal public utilities, these included banks and financial services, import and export marketing, transportation, hotels, and production activities in bauxite/alumina, sugar, bananas, meat, winter vegetables, cement, garments, shoes, furniture, and commodity trading.

By the early 1980s the 200 public enterprises accounted for about 21 percent of GDP, 19 percent of Jamaica's capital stock, and 11 percent of employment. The 15 largest entities were running an overall deficit equal to 6.7 percent of GDP.

With the change in government in 1981, the inefficiencies and high costs of the government-owned companies were recognized. In 1982 the GOJ stated that it would follow a new policy of divesting companies that were essentially commercial enterprises.

Conditionality

Starting with P&E III in December 1982, every Cash Transfer agreement has included divestment provisions. The first conditionality provisions required the GOJ to study the need to divest publicly owned enterprises. Other agreements included conditions requiring the GOJ to prepare financial audits, and to determine the fair market value of the firms and the timing and form of privatization (e.g., sale of assets, management contracting, and lease or sale of shares). P&E IV.A and V specified 30 companies (eventually increased to 44) to be privatized. P&E V required the GOJ to generate net financial inflows from privatization equivalent to the amount of the cash grant.

A.I.D.'s divestment efforts were supported by conditionality in the World Bank's three Structural Adjustment Loans (SALs) and the Bank's Public Enterprise Sector Loan. The World Bank program and related conditionality concentrated on improving public sector investment and public sector management. While the emphasis therefore was on improving the operation of existing public enterprises, the Bank also supported A.I.D. divestment efforts.

Performance

Divestment conditionality and related performance can be divided into two sequential stages: (1) Procedural -- Setting up divestment bodies, identifying firms for divestment, preparing accounting data and asset valuation; and (2) Actual Divestment -- final identification of firms to divest, setting fair market value for each firm, negotiations with private parties for divestment, and the final sale or lease of the firms. In addition to the A.I.D. disinvestment requirements, the GOJ initiated privatization efforts not specified in the P&E agreements.

Procedural. The GOJ established five procedural channels for privatization.

a. Privatization of large firms through share offers (through the National Investment Bank of Jamaica -- NIBJ).
b. The privatization of medium and smaller enterprises (through the Divestment Committee of NIBJ).
c. The sale or lease of hotels (through the Hotel Divestment Committee).
d. Agricultural land leases (through Agro 21).
e. Miscellaneous privatizations (through various ministries and agencies).

The Council of Public Accountability supervised the preparation of an inventory of assets and liabilities of most public enterprises. The World Bank provided funding for detailed financial and management surveys of the major enterprises. Accounts of the 21 largest public enterprises were prepared and are now included in the GOJ budget. Previously they had been outside the budget and the GOJ had only a limited idea of their assets, sales, and profitability. The A.I.D.-funded Technical Consultation and Training Grant (TC & TG) was used to hire consultants to help the NIBJ Divestiture Secretariat to identify enterprises that would be suitable for divestment. A study by Price Waterhouse reviewed the various options for privatizing the GOJ-owned tourist hotels.

The USAID Mission has concluded that the GOJ is in full compliance with the procedural conditions of the P&E Agreements. The evaluation team agrees that the procedural conditions have been satisfied and the few remaining unaudited enterprises are not significant.

Divestment. As required in the aid agreement of May 1984, the Secretariat prepared the financial data and set a timetable for privatization. At the time of this evaluation 19 firms had been sold or their assets leased to the private sector. Another eight firms were in various stages of negotiations leading toward eventual privatization. Three firms were found unsuitable for privatization.

Although substantial progress had been made, not all firms were privatized and the deadline set in the P&E Agreement (of November 1985) had not been met. The USAID Mission extended the deadline to December 31, 1987. While it is questionable whether the GOJ will be able to complete the privatization of the remaining firms by the end of 1987, the GOJ should be given high marks for privatizing 19 firms.

P&E V listed eight firms which NIBJ was to consider for privatization. At the time of this evaluation, one firm had been privatized, two were nearing completion, three were in various early stages leading toward privatization, and two were deemed unsuitable for privatization. The process of finding buyers and negotiating the sale of public enterprises proved more difficult and time consuming than originally expected. Given those difficulties, the evaluation team would agree with the Mission's conclusion that the NIBJ had substantially complied with the P&E conditionality terms.

P&E Vs required the GOJ to generate during 1986 net divestment income equal to the US$34.5 million provided from the A.I.D. Cash Transfer. Actual receipts in that year were US$25.8 million, or US$23.5 million after deduction of government expenses. Technically, therefore, the P&E V.S conditionality was not met. However, if account is taken of the 1987 sale, for US$32.2 million, of National Commercial Bank, the P&E terms were more than met. The sale of NCB was a major privatization breakthrough since it was a highly visible and large bank sold through a broad-based share offer.

Following is a summary of GOJ divestment actions.

SEPROD. This company is a manufacturer and distributor of consumer products and animal feeds. Its shares were sold in December 1985 for US$ 8.3 million.

Caribbean Cement Company. In June 1987 the GOJ sold 72 percent of its shares for US$ 32.5 million.

Hotel divestment. In 1981, 13 of the 16 GOJ owned tourist hotels were leased to private firms. In 1987 the government announced plans to sell 13 hotels (with a total of 3,700 rooms) to the private sector.

JAMINTEL. The GOJ has sold a US$ 40 million interest in the Jamaican Telephone and International Telecommunications Company to foreign investors who now hold a 39 percent interest.

Land lease programs. The government owns 200,000 acres of poorly utilized agricultural lands. So far, under the first stage of privatization, 57,000 acres have been leased to private operators, 2,400 are nearly leased and 2,370 acres remain to be leased. The remaining 138,000 acres remain to be privatized but they are of lower quality and thus are much less attractive than the lands already turned over to the private sector.

Sugar estates. The two biggest sugar estates have been placed under a management contract with a private British firm.

Bus companies. The government bus companies in Kingston and Montego Bay have been sold to private firms.

Miscellaneous factories. The Jamaican Industrial Development Corporation (JIDC) has sold, or is in the process of selling, 40 of its factories, buildings, and land.

Hospital Services. Housekeeping, porterage, and sanitation services of three Kingston hospitals have been turned over to the private sector.

Agricultural markets. The GOJ has leased to the private sector 59 of 69 rural agriculture markets.

Economic Impact

Divestment became a GOJ economic policy in 1981. However, except for hotel leases, few divestment actions took place until 1985. The early years were spent building a political consensus and laying the accounting (asset valuation) groundwork. Other countries have found that private ownership, control, and management improves resource allocation and economic efficiency. The same should be expected in Jamaica. However, since Jamaica's divestment process started only two years ago, it is clearly too soon to measure economic impacts. On the other hand, it is possible to examine some of the early indicators of economic change to see what lies ahead in the 1990s.

Changes at the level of the firm. Based on discussions with privatized firms, some changes are already evident. Previously, wage rates and individual pay categories were determined by the GOJ Ministry of Public Services based largely on political and equity considerations. Labor negotiations were politically charged and difficult. Now, the privatized firms negotiate on the basis of economic considerations. Labor negotiations tend to take less time and are less acrimonious.

Previously, a government enterprise had its prices set by the GOJ Prices Commission, which was interested in keeping a lid on prices, even when it resulted in losses for a public sector firm. The Commission does not set prices for private firms. Now, with a liberalized capital market, a foreign exchange auction, and fewer controls on trade, a privatized firm has to take most of its price signals from the market place.

Previously a government enterprise had to follow standard GOJ accounting, depreciation, and financial standards. Now, privatized firms can operate their financial system in a manner that reflects their productive process and the financial information needs of management.

Impact on Tourism. Privatization of the hotel industry, beginning with the leasing of hotels to private investors in 1981, had much to do with the strong growth of tourism throughout the 1980s. Revenues from tourism rose from US$230 million in 1980 to US$515 million in 1986/87.

Government Savings. USAID estimates of GOJ financial benefits from privatization in 1986 are estimated at more than US$25 million and include:

	US$ Millions
Sale of assets	4.8
Annual rental of leased property	10.9
Budget subsidies and credit avoided	10.1
	25.8

Added to the amount above would be the annual value of stock sold. In 1985 SEPROD generated US$ 8.3 million, in 1986 NCB produced US$16.5 million, and in 1987 the cement company (CCC) provided US$32.5 million. If each year the GOJ is able to sell one or two major firms and a number of smaller firms, it should be able to generate US$10-30 million a year. The fact that Jamaica's capital market is small may limit the rate at which the GOJ can bring new issues to the local market. Another unknown is the strength of foreign investor interest in the Jamaican market.

Anecdotal evidence A number of individuals described how money-losing government enterprises became profitable as a result of privatization. According to them, it was not the change in ownership but a change in physical plant, technical process, organization, and pricing prior to the actual divestment that made the difference. Before a money-losing firm could be privatized it had to be reorganized into a concern with good profitability prospects. For example, nonproductive sugar factories were closed and unprofitable acreage eliminated. Only then was the private sector willing to bid on the properties and management contracts. An additional benefit of privatization was the revitalization of the domestic capital market. The privatized public sector firms increased the base of the Jamaica stock exchange. The success of those privatization efforts encouraged existing private sector firms to float new issues.

In conclusion, not all divestments called for in the A.I.D. Cash Transfer Agreements have been achieved. Many divestment actions have moved slower than expected and some have been held up by the GOJ Cabinet for political reasons. In particular, sales of government-owned hotels have lagged. On the other hand, divestment has been achieved in areas not specified in A.I.D. Cash Transfer agreements. Overall, achievements have been substantial. Government-owned shares sold on the stock exchange were equal to 20 percent of the market's value. Other privatization actions were nearly as great. This represents the mobilization of a large amount of money, in a short period of time, from a very small private capital market. Progress to date is impressive and it may be unrealistic to expect such a rapid pace to continue. In short, the Evaluation Team considers the GOJ to have complied with the divestment objectives of the Cash Transfer agreements.

Income Tax Reform

The Problem

Jamaica's tax system involved high levels of tax avoidance and evasion and was viewed by most people as inequitable. It was unable to mobilize the revenues needed by the government. It encouraged the movement of capital and labor from the formal to the informal sector and to the self-employed sector. It encouraged high debt equity ratios, low investment relative to consumption, and a large and growing underground economy.

Prior to tax reform, Jamaica's tax system contained very high nominal tax rates, compared to the rates in other LDCs at similar levels of income and foreign trade. The system had a highly progressive rate structure but effective rates were regressive owing to the existence of numerous exemptions, credits and high levels of evasion. The marginal tax rate on a relatively modest income of US$2,500 a year exceeded 60 percent. However, there were 16 separate tax credits which could be used to reduce taxes. In addition, employers provided their employees with non-taxable allowances and perquisites which averaged 40-55 percent of wage income. For higher paid employees, non-taxable allowances often provided up to 85 percent of their income. Interest income was tax free but dividends were taxed twice (at the firm and individual level). In addition to the revenue losses from untaxed interest income, the tax-free status of interest income encouraged firms to take on high debt/equity ratios by excessive borrowings against a small equity base. In practice, capital gains and most self-employed income were largely untaxed, which benefited primarily those in the upper income levels.

In addition, the tax system was complicated and therefore difficult and costly to administer. There were too few trained tax administrators and, with low salaries, attrition was high. The system was so complicated that taxpayers and tax officials were often unclear as to how much an individual should pay. There were no procedures for assessing self-employed income and no system for using third party information to detect non-reporting or under-reporting. Audits and enforcement measures were haphazard. Central tax information and records were on a manual, paper system. There was no automated database or computers to keep track of tax payments.

Conditionality

P&E IIIs, of March 1983, included a GOJ commitment to assist a team of A.I.D.-financed tax consultants in their study of the tax system. P&E VI, of January 1986, required the GOJ to prepare a proposal to reform personal income taxes. P&E VII included a GOJ commitment to continue tax reform and to expand it to include corporate income and indirect taxes. The World Bank and IMF did not include tax reform in their policy agenda. Among the donors, this was solely an A.I.D. initiative.

Performance

The A.I.D. Board of Revenue DA Project provided technical assistance advisors who worked with the GOJ Board of Revenue on the overhaul and simplification of the income tax system. The project advisors prepared sample surveys of existing tax incidence, and advice to the GOJ Tax Reform Committee on various reform options. The Committee did the actual preparation of the new tax program.

The Tax Reform Committee included members from both political parties, legislators, labor unions, employers, and a broad range of economic interest groups. By including all interest groups in the process, agreement was reached on a simplified and equitable system that all could support. The final personal income tax reform package, adopted by the Prime Minister at the beginning of 1986, included the following elements:

- The highly progressive rate structure was replaced with a flat tax rate of 33 1/3 percent.

- The previous 16 tax credits were eliminated and replaced with a standard deduction of J$1,600.

- With few exceptions, all non-taxable allowances became subject to tax.

- The tax threshold was raised, removing many very low income earners from the tax roles.

- Bank deposit interest (with a small, minimum exclusion) was included in the tax base.

After the reform of personal income taxes, attention moved to corporate income taxes. A corporate tax package was approved in 1987, providing for a 33 1/3 percent flat rate in place of the previous 45 percent rate. Special tax treatment was ended for agricultural companies and investors who had been given tax holidays. Special treatment of financial institutions was also eliminated. Discrimination in favor of debt and against equity was ended by taxing interest. The disincentive "additional profit tax" on dividends was eliminated, which encouraged larger dividend distributions.

Economic Impact

Since the personal income tax reform package was introduced in early 1986 and the corporate tax package in 1987, it is clearly too early to assess the full economic impact of those measures. Still, there are a number of early indicators of economic progress.

One of the best indicators is the lack of public discontent with a very major tax reform. The press, political opposition, and labor unions have raised few objections. Evaluation team discussions with businessmen turned up few complaints. This may be due in part to the strong economic growth which has taken place during 1986 and 1987. It is hard to separate the impact of the tax changes from general business optimism. Although problems persist with the adjustment to the GOJ's reform measures, business attitudes are generally upbeat and corporate profits are strong. Through August 1987 the 16 largest listed companies reported post-tax profits 84 percent higher than during the same period of 1986. The Jamaican stock exchange had record growth during 1986 and 1987 --- the stock index increased from 941.5 at the end of 1985 to 1499.8 at the end of 1986 and 1595.4 at the end of November 1987.

The new income tax system was designed to be revenue neutral, a simplified system that avoided special exemptions and preferences while reducing tax avoidance and evasion. In practice, the system has increased revenues and appears to be more income elastic than the old system. Income taxes on salaries under the PAYE withholding system were up 9.7 percent in 1986 and 17.9 percent in the first quarter of l987, in comparison with corresponding year-earlier periods. Total corporate and personal income taxes in the second quarter of 1987 were running 18 percent above the second quarter of 1986. These increases should be compared to the nominal GDP growth rate of 10 percent. Thus, tax receipts in late 1986 and early 1987 appeared to be growing nearly twice as fast as nominal GDP growth, compared with income elasticity of 1.4 in 1983, 0.1 in 1984, and 1.7 in 1985.

The simplified income tax system has made it possible for the income tax department to concentrate more on enforcement. During the first quarter of 1987, more vigorous audit measures have led to a tripling of additional taxes and penalties, as compared to the same period in 1986. The A.I.D. Revenue Board project included a tax training component that helped contribute to those increases. In fact, the first 20 revenue agents graduated under the A.I.D. training program were able to collect J$10 million during their first six months in the field. Eventually there will be 125 agents trained under the A.I.D. program. The A.I.D. project also created a computer system for tax records and enforcement. Now, all businesses must have a tax number and must submit that number before the GOJ will issue them a business license, excise license, or import allocation. This central tax control system should help reduce the large number of firms that have never filed an income tax return.

Trade & Private Sector Development

The export-oriented growth policy proclaimed by the new government in 1980 called for more efficient processing and manufacturing industries, improved operations and productivity in traditional export industries, and increased private investment to bring these about.

A.I.D.'s strategy for assisting the GOJ in achieving its goals involved encouragement of policy reform in these areas:

- Removal of price controls to improve the market mechanism and eliminate burdensome subsidies

- Increase traditional agricultural exports through deregulation of export marketing organizations (EMOs)

- Increase production and exports of manufactured (non-traditional) commodities through changes in import regulations

- Increase private investment through elimination of administrative obstacles (foreign exchange controls and the investment approval process)

The following sections discuss the policy reforms A.I.D. supported in these areas, the GOJ's performance, and the impact of actions taken to date.

Market Deregulation

The Problem

The objective of removing price controls was to improve market performance in allocating resources and to eliminate subsidies which the government could ill afford. In 1980, there were 60 items on the GOJ's list "A," i.e., those items subject to direct price control. Other items, on lists "B" and "C," were subject to indirect control through the regulation of marketing margins. The "A" list contained basic foods, feed, gasoline, and kerosene. List "B" had eight items including fertilizer and recombined milk. List "C" had 20 items, including drugs, motor vehicles, and some food items.

To complicate the problem, JCTC imports many of the controlled items, including food, drugs, lumber, fertilizer, and motor vehicles. Owing to price controls, the increased costs of many of these items were not passed on in the wake of the 1983/84 devaluation, causing a rising subsidy bill at JCTC. Ministry of Finance payments to JCTC reached J$ 100 million in 1984. Product subsidies were incurred for fresh and condensed milk, bread (flour), drugs, and fertilizer.

Conditionality

P&E IV.A, in May 1984, stipulated that the GOJ increase the domestic sugar price (the IMF Standby Agreement of 1984/85 contained the same requirement). P&E V, in December 1985, stipulated that all items on the "A" list as of October 31, 1985 (and not scheduled for removal by the 1984 P.L. 480 Agreement) would be moved to the "C" list, and that no additional commodities would be placed under price control without mutual agreement.

Performance

In early 1985, there were 40 items on the three lists, of which 13 were on list "A." By November 1985, the number of items on the three lists had been reduced to 17, of which 3 on the "A" list. Some items were moved from the "A" list to the "C" list. However, in 1986, 13 items were back on the "A" list, and several more were added in January 1987. Rice and skimmed, dried, and powdered milk were removed. Those remaining, or restored, include foodstuffs, animal feeds, gasoline, diesel oil and kerosene, herbicides/pesticides, medicines, and school books. Most of the items on the other two lists have been decontrolled, including fertilizer and recombined milk (from List "B") and lumber, tires, and cement (from List "C"). The "B" list includes steel bars and the "C" list includes drugs and motor vehicles.

In summary, compliance with the price decontrol measures of P&E V has been less than complete. A.I.D. has not objected, however, considering the political sensitivity of many of the controlled items, and given GOJ assurance to the IMF that no new items will be made subject to control.

Impact

As a result of the removal of most controls on "A" list items, direct subsidy payments to JCTC were eliminated in 1985. However, with the reimposition of price controls in 1986, JCTC received a transfer of $100 million to compensate for reductions in domestic prices, and a further transfer of $100 million was budgeted for in 1987. If the exchange rate is devalued or if imported food prices increase for other reasons, the GOJ will have to increase subsidies to the JCTC. In short, while the subsidy burden is probably lower than it would have been in the absence of A.I.D. and IMF conditionality, it has not been eliminated.

Rice and milk were removed from price control; however, their importation remains restricted. The GOJ would like to increase rice production to be less reliant on imports. In 1985, Jamaica had a self-sufficiency ratio of 8 percent for rice. There is no information available on whether rice production increased after rice was removed from the price list. Powdered milk prices increased in large part because of P.L. 480 self-help measures. As a result, powdered milk is no longer undercutting fresh milk production.

Prices of sugar and basic foods are still controlled and many items can only be imported by JCTC. Both chicken and feed prices are back under price control. Chicken is the principal animal protein meat in the Jamaican diet and demand is strong given higher prices for beef and pork. The Jamaica Broilers Co. recently invested J$12 million to increase chicken production and would like to expand further. However, it is difficult to assess the future of poultry production in Jamaica, given price controls on poultry meat and feed.

Agricultural Exports

The Problem

During the 1970s production and export of the traditional agricultural crops largely stagnated. Although agricultural output increased during the decade at an average annual rate of 0.7 percent, the overall result concealed an average annual increase of nearly 4 percent for domestic agriculture, and an average decline of about 4 percent for export agriculture. During the 10 years from 1973 to 1983, exports of the major traditional crops -- sugar, bananas, pimento, coffee, cocoa, and citrus -- increased at an annual average rate of only 2.6 percent, to US$ 86 million. Their share of total exports, meanwhile, declined from 16.9 to 12.6 percent, notwithstanding the collapse in bauxite earnings after 1981. While other factors, notably the overvalued exchanged rate, played a role, the poor performance of traditional agricultural exports was ascribed in large part to the restrictive effects of the Export Marketing Organizations (EMOs).

The original goal of the EMOs was to maximize grower profits and foreign exchange earnings from exports. However, the boards came to assume other goals. They used producer resources to fund their own production activities and, assuming that producers were not price responsive, they did not pass price increases onto producers. The EMOs thereby became a disincentive to production, and to the longer-term investment required to improve the traditional export sector. In order to create producer incentives, improve investment, and increase export production, policy reforms to deregulate the EMOs were developed.

Conditionality

In 1982 as part of the CBI, A.I.D. recommended a study of the competitiveness of Jamaican exports. In the following year, P&E III.S stipulated that the GOJ complete a plan to increase competition in the marketing of the traditional export crops. This was followed by conditions in P&E IV.A, P&E V, and P&E V.S providing for the liberalization of export marketing for non-traditional crops, deregulation of export marketing of coffee, an agreement to impose no additional regulations on other traditional export crops (pimento, citrus, cocoa), and elimination of the Banana Board, with the banana industry to be turned over to the private sector.

The World Bank requested similar policy reforms through their three SALs of March 1982, June 1983, and November 1984. The first loan supported reform of the Export Marketing Organizations, separation of marketing and non-marketing services, and rehabilitation of the sugar and banana industries; the second supported continued progress in deregulating export marketing of coffee, cocoa, citrus and pimento; and the third called for continued progress in deregulation, and a study of the pricing mechanism for these crops leading to adoption of appropriate pricing formulas.

Performance

The GOJ has made progress in deregulating the Export Marketing Organizations. In 1983, guidelines were issued that allowed growers and traders to purchase and export their agricultural commodities. The banana company was restructured in 1985 and the sole purchasing authority of the EMOs was abolished for coffee, cocoa, and citrus. In 1985, deregulation was extended to allow smaller firms to export. So far, one firm exports coffee. Cocoa continues to be marketed and exported through the Cocoa Board. At least three citrus firms export fresh fruit. Pimento and coconut were not deregulated.

Non-marketing activities were separated from marketing organizations. Non-marketing activities for the banana industry, such as extension, were transferred to the Ministry of Agriculture, and other functions, such as sprayers, to growers. The non-marketing activities for coffee and cocoa (e.g., extension, improved techniques, credit) were transferred to commodity board subsidiaries.

A price formula, based on world prices minus costs and retentions, was developed to ensure that higher prices from the devaluation were passed on to producers for coffee and cocoa. A new pricing structure was adopted in the banana industry in 1985. Citrus prices are now determined by the Citrus Growers Association (CGA), processing factories, and the fresh fruit market price.

Impact

Deregulation of the EMOs was expected to increase the producer's returns relative to the export price, improve the environment for increased investment, and increase production and exports. Data on marketing margins are generally unavailable. However, according to a 1986 World Bank/FAO study, returns to producers have increased for bananas, coffee, and citrus. Although it is too soon to draw definitive conclusions from the export data available, especially since devaluation has also played a role in export increases, growers of these crops appear to be responding well to the improved profit opportunities.

Banana exports increased from a low point of US$1.5 million in 1984 to US$ 9.1 million in 1986, and the number of acres planted more than doubled in that year (see Annex Table F.1). The coffee industry has attracted Japanese and EEC money, and marketing efforts have greatly expanded under the new institutional arrangements. Blue Mountain Coffee plantings were up sharply in 1986 (Annex Table F.2). Deregulation and devaluation have also stimulated an interest in exporting in the citrus industry. Exports of citrus rose from US$1.1 million in 1984 to US$2.0 million in 1986. Cocoa production has also increased, but changes in that area are attributed mainly to the rehabilitation of farms by the Cocoa Board.

In short, the deregulation of EMOs has produced results in terms of increased investments and exports. Reportedly, however, many smaller producers are not yet taking advantage of the new opportunities open to them. Better technical and marketing information may be needed.

Import Restrictions

The Problem

As a result of the protectionist philosophy prevailing until the 1980s, Jamaica's manufacturing sector had become generally unproductive and inefficient. Manufacturing output declined during 1973-80 by 28 percent. In 1980, 364 items were subject to quantitative import restrictions. Import tariffs were generally high and the system exceedingly complex, with marginal rates of protection (Common External Tariff and Stamp Duties) ranging up to 200 percent, but also including a wide range of duty exemptions for favored groups. The quantitative restrictions permitted monopoly pricing and favored production for the domestic market. The tariff system further discouraged production for export. As a result of these factors, and the generally overvalued exchange rate, manufactured goods accounted for only 16.3 percent of total exports in 1980, 10.6 percent if sugar products are excluded. Exports of agricultural products were also adversely affected, by restrictions on imports of certain agricultural inputs.

A.I.D., under the terms of the CBI Supplemental in 1982, undertook a study of the trade and payments system. In the same year, the GOJ agreed under the terms of the World Bank's first Structural Loan Agreement (SAL I) to phase out quantitative import restrictions by 1987, and by January 1984 had reduced the list from 364 to 186 items (some items were assessed additional duties). In other steps toward reversing the anti-export bias, the IMF, the World Bank, and A.I.D. were urging the adoption of a unified, freely fluctuating exchange rate; and the World Bank, under the terms of SALs I and II, was aiding in the establishment of an export incentive scheme whereby exporters could retain 50 percent of the proceeds of non-traditional exports to non-CARICOM markets. A principal purpose of P&Es IV.A, V, and VII was to accelerate the process of trade liberalization and encourage rationalization of the tariff structure, with the aim of improving efficiency in manufacturing and raising the level of exports.

Conditionality

Under the terms of P&Es IV.A and V, of May and December 1984, respectively, the GOJ was asked to (1) remove all quantitative import restrictions, excepting goods related to national security, public health, and safety, by the end of Jamaican fiscal year 1985/86; and (2) rationalize the import tax system "in a manner consistent with the wider tax reform then being developed."

P&E VII, of December 1986, called for further simplification of the tariff structure, with a general reduction in rates, and a general overhaul of the customs system.

Performance

Considerable, if uneven, progress has been made toward the removal of import restrictions. Some products were actually added to the list in 1985, and some of those removed were later restored, at least temporarily. However, by 1987, the number of items subject to quantitative restriction was down to about 55, including items exempted for reasons of health and safety, certain basic foodstuffs imported by JCTC, and agricultural products such as fruits and vegetables to protect small farmers. Except for a limited number of agricultural products and luxury goods, the maximum effective tariff rate (CET and Stamp Duty) has been lowered from 200 to 68 percent. However, a system of reference prices plus stamp duty was put into effect for some 34 items which effectively raised their rates (some were later taken off the reference price system), and the consumption tax, ranging from 27 to 35 percent, remains in effect. Duty exemptions were removed for some items (the exact number could not be determined), but those in effect at the time of the order will continue until their original expiration date. Annex F contains a more detailed accounting of import restrictions, tariff rates, and duty exemptions. Many manufacturers complained to the

Evaluation Team of continuing anomalies in the system. Duties on capital goods imports were said often to be higher than duties on consumer goods. Further, domestic manufacturers are frequently subject to excise taxes that imported goods escape. In both cases, imports are said to undercut domestic producers who otherwise could be competitive. The GOJ has stated its intention of achieving a 10-20-30 percent tariff rate structure on raw materials, capital goods, and consumer goods, respectively, by 1988.

In summary, the GOJ has substantially complied with P&E IV.A and V performance criteria as far as quantitative import restrictions are concerned, and is making progress in the area of tariff reform.

Impact

The reduction in import restrictions and progress toward rationalization of the tariff structure should be reflected in a restructuring of industry to take advantage of export opportunities; a higher proportion of capital goods imports with which to effect the restructuring; and an increase in non-traditional exports, especially to non-CARICOM markets. (Inclusion of exports to CARICOM markets tends to distort the trade data for analytical purposes, given the sharp decline in exports to Trinidad-Tobago following that country's imposition of import controls in late 1983.)

Unfortunately, the data available to the Evaluation Team were not recent enough (almost no data were available for 1987, and other series available terminated in 1985) and not enough time has passed for expected changes to occur. Furthermore, other factors played a role, perhaps even a bigger role, in effecting the same changes that we are looking for in connection with P&E; namely, the large devaluation of late 1983 and early 1984; the World Bank supported export-retention scheme and Export Development Fund; and Section 807 of the U.S. Trade Act, which permits tariff-free entry to apparel imports from CBI countries that are made 100 percent from U.S. fabric and cut in the United States. In short, we can note only tentative early results arising from all reform measures in this area.

1. Manufacturing production: Following its steep decline in the 1970s, manufacturing output scored good gains in 1981/82 and 1982/83; slumped under the impact of import reductions and fiscal austerity in 1983/84 and 1984/85; and recovered moderately in 1985/86 and 1986/87. Growth for the period as a whole was 9.7 percent, or 1.6 percent per annum, which contrasts with a 28 percent decline during 1973-80. During 1983/84-86/87, roughly the period in which structural reform measures have been applied under A.I.D. and World Bank programs, manufacturing production increased at an average annual rate of 0.3 percent. GDP during the same period declined at a rate of 0.2 percent. Within the manufacturing sector, there were major gains in food processing, textiles,

chemicals and chemical products, and some non-metallic and metal-based products. Chemical manufacturers benefited from improved production efficiency and a more stable raw material supply. Textiles have benefited greatly from their preferred access to the American market. Decline in output occurred in sugar products, beverages, and footwear.

2. Composition of imports: The share of capital goods within total imports rose in every year but one (1983) during 1980-85, ranging from 17.1 percent in 1980 to 24.7 percent in 1985. Since non-fuel imports for the bauxite sector declined throughout this period, the trend for the rest of the economy was even more impressive. The share of "other machinery" within the total for capital goods imports rose from 10.0 percent in 1980 to 15.0 percent in 1985. These are positive developments reflecting an improved investment climate.

3. Exports: According to the Statistical Institute of Jamaica, exports of manufactures to all areas rose from US$119.6 million in 1981 to US$ 153 million in 1985, for an average annual increase of 5.0 percent. These data, however, reflect the inhibiting effect of the stagnant CARICOM market. According to Jamaican balance of payments statistics (Annex Table H-3), non-traditional exports to nonCARICOM markets rose from US$ 84 million in 1981/82 to US$ 173 million in 1986/87, for an average annual increase of 15.5 percent. These data are a better indication of the reorientation of Jamaican industry. However, they include exports of agricultural products and of clothing to the United States under the Section 807 provisions mentioned above, neither of which are pertinent to the reform measures under consideration here. The data are not sufficiently detailed to enable a precise adjustment to reflect these factors (e.g., clothing exports to all markets increased from US$ 7.2 million in 1981 to US$ 36 million in 1985, but the Section 807 share of these can only be estimated). On the basis of our estimates, however, non-traditional exports of manufactures (excluding Section 807 exports) to non-CARICOM markets rose from about US$67.5 million in 1981/82 to about US$106 million in 1986/87. This would represent an annual rate of increase of 9.4 percent per annum, still an impressive achievement considering that manufacturing production increased at an average annual rate of only 1.6 percent during the same period.

Conclusion

Some reorientation of Jamaican industry is apparent in the production data, and the increasing share of capital goods imports within total imports is a good indication of an improving investment climate. The available export data also suggest a considerable reorientation of industry toward exporting. Even after allowance for the effects of Section 807 on the textile sector, these developments can undoubtedly be attributed to reforms sponsored by the major donors.

Attribution of the effects among devaluation, export retention schemes, reduction of import restrictions, and tariff rationalization is, however, not possible.

Private Investment

The Problem/Background

The GOJ's export-led growth strategy requires new investment to increase capacity in both agriculture and manufacturing. However, studies on investor attitudes show that red tape and restrictions on private sector decision making have been a major obstacle to increasing private investment. These have been manifested in two ways in Jamaica -- exchange control regulations on capital flows, and the promotion and approval process for investment.

Exchange controls restrict capital inflows for investment as well as capital outflows. Investment in Jamaica by foreigners must be approved under the Exchange Control Act. Direct investment must be registered and approved in order to repatriate income on sale of equity. Other than registration and approval, most restrictions on repatriation of income and equity have been removed. For foreign capital inflows, the Bank of Jamaica and the Jamaica National Investment Promotions Limited (JNIP) submit a joint recommendation to the Ministerial Committee. The GOJ decided that exchange controls should be reviewed, and removed if found necessary, to facilitate capital flows.

Investment planning and promotion is carried out by three public sector agencies: Jamaica Industrial Development Corporation (JIDC), Jamaica National Investment Promotion (JNIP), and Jamaica National Export Company (JNEC). JNIP is responsible for investment promotion and the investment approval process. JIDC is responsible for industrial development, technical assistance, factory space, and training of employees for new manufacturing operations. The JNEC is the main agency that promotes Jamaican exports in the United States, the United Kingdom, Canada, and in the Caribbean.

JNIP has conducted several studies on the investment climate and disincentives to investment in Jamaica. The studies indicate that slowness in the approval process, customs problems, and unavailability of factory space are major obstacles to private investment in Jamaica. To accelerate investment, A.I.D. supported the streamlining of investment regulations and the approval process, and the expansion of investment and promotion activities.

Conditionality

Beginning in 1982, A.I.D. has required through the CBI Supplemental, P&E V, P&E V.S, and P&E VII that a number of studies be conducted pertaining to export competitiveness, Jamaican and U.S./Canadian investor attitudes, the institutional framework of the industrial sector in Jamaica, investors' problems, and economic policies important to investors.

A.I.D. also required through the CBI Supplemental, P&E III, P&E III.S, P&E V, and P&E V.S that the GOJ review exchange controls on capital transactions; assess investment promotion activities, review public sector agencies for investment promotion (JNIP, JIDC, JNEC) and develop a plan to consolidate the agencies; develop a program to accelerate foreign and domestic private investment; prepare recommendations for simplifying and accelerating the approval process for private investment; and make appropriate changes in economic policies that discourage private investment. The IBRD/World Bank supported similar changes in their first Structural Adjustment Loan (SAL I) in 1982.

Performance

The GOJ commissioned Samuel Montague & Company to do a study of existing exchange controls. The study concluded, in 1985, that removal of controls on capital flows were not feasible at the time, but that registration procedures should be streamlined and restrictions reduced to facilitate foreign private investment inflow. These changes were to be made without discouraging joint ventures with local partners or business activity among Jamaicans.

A number of studies on investor attitudes were completed. The GOJ has formed a Joint Investment Committee, composed of representatives from relevant ministries, to meet regularly. An investment code was drafted in 1986 to codify the investment approval process, but it is not clear whether the code has been approved by the Attorney General. The three investment promotion organizations, JIDC, JNIP, and JNEC, were merged under the Ministry of Trade & Commerce. However, they are not relocated, nor do they conduct programs together.

JNIP streamlined investment procedures and accelerated project approval. They are trying to develop into a one-stop investment agency. Where the JNIP cannot issue approval, it serves as an intermediary between investors and the GOJ. They have simplified the application process, substituting one form for the seven to thirteen that were previously required. The length of the approval process and the procedures vary by the nature of the investment. Approvals can take as little as three months but normally average six to nine months.

JIDC provides training, consultants, and product information. In 1984, they embarked on a program to increase factory space by 750,000 square feet. By the end of 1986, 60 percent was completed. JIDC targeted four areas for export promotion: apparel, furniture, footwear, and electronics.

All three organizations carry out promotion activities. They help set up model factories and showrooms. JNEC conducts product surveys, and provides market information and training in other aspects of export operations. JNEC registered 157 new exporters in 1986. All three organizations hold workshops and trade shows on investing in Jamaica.

Impact

Investment proposals implemented by JNIP increased to 162 in 1986 from 140 in 1984. Investments were primarily in manufacturing (80) and agriculture (46). Export promotion efforts have had some success, as evidenced by JNEC's achieving J$150 million in export orders, compared with a targeted J$22 million. The JIDC has completed new factory space that has already been rented. The apparel and furniture industries, targeted by JIDC, exported US$98 million and US$3.7 million, respectively, in 1986. In short, JNIP, JIDC, and JNEC are continuing to expand their efforts, and investment, factory space, and exports are increasing.

Obstacles to investment remain, in particular, high start-up costs, high interest rates, and continuing problems in the area of import controls and tariffs. However, as shown in interviews with local businessmen, the overall climate for investment has clearly improved since the 1970s. The lessening of bureaucratic restrictions in the investment approval process and the positive contributions of the investment agencies have been a factor.

VI. SOCIAL IMPACT AND EQUITY

Linking Structural Adjustment to Individual Well-Being

Stabilization and structural adjustment programs alter the level and types of production, the employment market, the size and functions of the public sector and various other key aspects of the economy, affecting the well-being of individuals in the process. As necessary as the programs may be to the long-term viability of the economy, in the short term, such changes typically impose direct costs on some individuals in the form of transitional unemployment, price increases of basic consumer goods, and reduction in or increased costs of public services. Although the immediate effects of policy reforms produce economic hardships for many, others benefit as the economy changes. In general, major actors in the business and agriculture sectors are best positioned to take advantage of the immediate opportunities created by policy reforms. Interviews with such individuals lend support to this generalization. Upper and middle class groups are also far better able to cope with the austerities created during the adjustment period. In contrast, lower income groups and the very poor are the least able to deal with real increases in the cost of living. The impact of the program on these people should be of most concern.

Changes in Aggregate Economic Indicators

Table 4 shows changes in the principal aggregate indicators during 1980-87, and a comparison with 1973.

Table 4 : Indicators of Economic Impact
(1973 and 1980-87)

	Per Capita GDP (1980=100)	Private Consumption as % of GDP	Real Gov't Wage Costs (1980 = 100){a}	Unemployment Rate (%) Stated	Unemployment Rate (%) Adjusted{b}
1973	137.4	61.8	65.4	22.0	11.7
1980	100.0	65.7	100.0	27.3	13.9
1981	100.4	67.6	96.7	25.9	11.1
1982	100.4	68.2	103.7	27.4	14.3
1983	100.7	65.8	103.6	26.2	12.6
1984	97.7	66.9	88.6	25.5	12.1
1985	92.4	68.2	72.0	25.0	12.5
1986	93.7	62.7	N/A	23.6	10.9
1987	96.1{c}	N/A	N/A	21.0{d}	8.6{d}

{a} Data are for Jamaica fiscal years ended March 31 of year following (i.e., 1984 is JFY 1984/85 ended March 31, 1985).

{b} Adjusted to exclude persons out of work but not seeking employment.

{c} Estimated.

{d} Data are for April. All other employment data are averages of April and October of year indicated.

Sources: IMF (February 1987 and October 1987)
IBRD (Report No. 4905-JM)

As can be seen, per capita GDP was basically unchanged during 1980-83, declined by about 8 percent during 1983-85, then recovered by an estimated 4 percent during 1986-87. The 1983-85 decline is what might be expected of an austerity program aimed at curing the spending excesses of a decade; interestingly, the degree of "hurt" implied in this period of retrenchment is far less than the decline suffered during 1973-80 when per capita GDP declined by 37.4 percent (4.4 percent per annum). Seen in the context of the past 15 years, the 1980-87 period was one of stabilization following a period of precipitous decline.

Private consumption rose as a percent of GDP during 1973-82, then declined after 1985, reflecting official encouragement of saving and investment. The sharp decline in real GOJ wage payments after 1983 reflects both a real wage decline and the above-mentioned reduction in government employment. Despite the elimination of 22,000 public sector jobs, the unemployment rate has moved downward, reflecting a sizable net creation of jobs in the private sector.

Government Expenditures

In 1981/82, and again in 1982/83, GOJ budgetary expenditures were 44.0 percent of GDP, an extremely high ratio by any standard. There was no question concerning the need for a reduction in the share of overall resources taken by the government if the GOJ was going to fulfill its mandate to encourage private sector development and economic growth. The only questions involved the size and area of the cuts to be effected and, of course, there could be no such thing as completely painless cuts. Between 1981/82 and 1985/86, GOJ total expenditures (in 1980 dollars) decreased by 29 percent (see Annex Table H-9). Social services expenditures (i.e., education, health, and social security) declined by 44 percent; a 57 percent reduction was made in economic service expenditures (i.e., economic infrastructure including transportation, communication, roads, and agricultural and industrial services). Capital expenditures were cut by 65 percent for social services and 60 percent for economic services; recurrent expenditures, by 38 percent and 46 percent respectively. Within social services, expenditures for education declined 37 percent and health 31 percent (Annex Table H-10).

As deep as the recent cuts in spending on social services have been, Jamaica remains well above the average of "lower middle income countries" (World Bank definition) in terms of government spending in these areas, as summarized in Table 5.

Table 5: GOJ Expenditures on Health and Education (1984/85)

	As % of total expenditures		As % of GDP	
	Health	Education	Health	Education
Jamaica	6.9	12.5	2.2	4.0
Avg. of "lower				

middle income" countries	3.8	13.8	0.9	3.4

Source: IBRD, World Development Report, 1987

The matter, then, is relative. Jamaica has moved from an exceptionally high level of spending on social services to an above average level. Nevertheless, the cuts have meant a substantial decrease in staff and a reduction in or loss of services for the general public and, in particular, lower income groups who have relied on such services in the past. For example, the GOJ has closed a number of health and educational facilities, and with reduced capital expenditures, remaining facilities will deteriorate while use will increase. Similarly, the reduction in education expenditures portends problems in coming years -- budgetary cuts are being made while the number of fourteen-year-olds and younger is increasing.

Employment Effects

Policy reform measures have resulted in gains in employment and earnings for lower income groups in selected areas. Farmers have benefited from devaluation, both directly, through higher earnings from exports, and indirectly, through increased competitiveness on domestic markets as a result of higher prices for exported goods. Recent increases in nontraditional agricultural exports reflect gains made by small farmers, who produce 73 percent of these commodities. Efforts to increase production in areas affected by deregulation of commodity marketing are reported to have generated additional employment and income for small farmers (at least for coffee and cocoa producers).

In manufacturing, the free zone and policy reforms designed to encourage export production have generated new employment. Several foreign manufacturers operating in the free zone each employ as many as 3,000 workers. However, many of these people had been employed in similar domestic industries that could not survive without highly protectionist tariffs. Further, the uneven application of tariff reform measures is blamed by many in the business community for having unfairly hurt local manufacturers (particularly shoes and garments) who could be competitive with imported consumer goods if taxes on capital imports were lowered and if small importers (higglers) were properly taxed. The result has been a loss of employment for workers in these industries. In short, the process has been one of continuing adjustment to changing circumstances. However, the employment data attest to the fact that the temporarily jobless are, in general, finding work, even as the necessary economic restructuring proceeds.

Health Effects

Increased poverty is typically reflected in the health status of children. There is some evidence that protein and vitamin A deficiency among children has increased and that hospital admissions of children for malnutrition are increasing (Swezy, et al., 1987; Fox and Ashley, 1985). MOH budgetary cuts also resulted in a 50 percent reduction in the number of community health aids. MOH/Nutrition Division officials recently reported that child malnutrition has increased in those areas where health aids were eliminated. On the other hand, measurements of malnutrition based on the Gomez scale show some deterioration from 1980 to 1981, but none from 1981 to 1986. And while some 50 health units have been eliminated since 1981, 357 remained in 1986, an impressive number for a country the size of Jamaica.

USAID/Jamaica did anticipate the adverse effects of the structural adjustment programs on the poor. Beginning in 1984, local currency generated by P.L. 480 amounting to J$48 million was used to fund a national food stamp program. Beneficiaries included some 200,000 pregnant and nursing women and children under the age of three, and 200,000 elderly and very poor persons. The monthly payment of J$10 per recipient provided by the program represented an additional 2 to 10 percent in food expenditures for program participants. Some households received additional assistance because of multiple eligible household members. Overall, the program worked well in reaching the intended beneficiaries and reducing to some extent the negative impact of structural adjustment.

Conclusions

In the short term, conditions for consumers across the board have worsened during the course of the Cash Transfer program, if by far less than the deterioration which would have been experienced without CTs. Middle and lower income households have been hard pressed to maintain their standard of living, and the poor have been hard hit by the cuts in social services.

To be sure, the hardships suffered by Jamaicans during the 1980s are mainly a consequence of the failed policies of the 1970s (to the extent they are not attributable to adverse external developments), and the resulting need for stabilization and structural reform. The adjustment was, however, more difficult than it would have been had the government moved strongly on stabilization in 1981, rather than 1984, and the process of structural adjustment has not been entirely smooth.

USAID/Jamaica acted to cushion some of the impact of the adjustment, notably with the Food Stamp Program, but in our view might have been done more. USAID might, for example, have intervened usefully with regard to GOJ expenditures on social services, with the aim of averting a portion of the disproportionately heavy cuts in those areas.

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VII. LOCAL CURRENCY PROGRAMMING

Administrative Procedures

Under each Cash Transfer agreement, the GOJ is required to deposit local currency, equivalent to the Cash Transfer dollar value, into an interest earning Special Account at the Bank of Jamaica. The local currency counterpart is then spent on development activities that have been jointly agreed upon by A.I.D. and the GOJ.

The A.I.D. Cash Transfer funds have generally become available towards the end of the calendar year, or early in the new year (November-February). Since the GOJ fiscal year starts on April 1, this allows the GOJ to know how much local currency will be available and to start planning local currency uses for its next fiscal year.

Based on line items drawn from the approved GOJ budget, the GOJ Ministry of Finance submits a list of proposed counterpart uses to the USAID Mission. Highest priority is given to funding the local currency requirements of A.I.D. Development Assistance Projects and the USAID Trust Fund. Next priority is funding for other donor projects (primarily IBRD, IDB, and EEC projects). The balance may finance GOJ projects that are consistent with A.I.D. priorities. The USAID Mission reviews the list to ensure that no priority items have been omitted and that all items are in line with A.I.D. development objectives. This list is the basis for an A.I.D. Project Implementation Letter (PIL) countersigned by the Ministry of Finance, which programs the funds.

Counterpart-funded projects are treated by the GOJ Ministries as regular GOJ activities. Every quarter the Ministry of Finance identifies those project expenditures eligible for reimbursement from counterpart funds and submits the information to the USAID Mission in a Quarterly Activity Status Report. The Ministry of Finance then sends a transfer request to the Bank of Jamaica requesting a drawing from the Special Account, as reimbursement to the GOJ Consolidated Fund for eligible expenditures incurred on A.I.D./GOJ agreedupon activities. The Bank of Jamaica then transfers local currency counterpart funds from the Special Account to the GOJ Consolidated Fund. The USAID Mission receives copies of the quarterly transmittal letters and Bank of Jamaica Monthly bank statements.

The USAID Controller and A.I.D. regional auditors monitor and periodically audit the Special Account and expenditure uses. A.I.D.'s monitoring system basically must rely on the integrity of the GOJ's own accounting system. On the positive side this eases the Mission's management burden and allows the GOJ to control and account for local currency counterpart funds in the same manner as regular GOJ funds.

Local Currency Uses

Planned local currency uses for 1987/88 were as follows:

	(percent)
A.I.D. Projects	15
A.I.D. Trust Fund	9
Other Donor Projects	37
GOJ Projects	39
TOTAL	100

In 1987/88 there were 40 individual budget line items covering a broad range of activities: education and training, parks, markets, private investment, credit, transportation, computerization, government buildings, schools, power generation, roads, urban and rural settlements, housing, and water supply. In the four prior fiscal years there were an average of 46 line items a year for a similar wide range of activities. Although some of the budget categories are probably more important than others, all appear reasonable and all will make a contribution to Jamaica's economic development. Since the Mission is involved only in the reimbursement of expenditures and not the actual implementation of projects, there is no reason for it to take a larger monitoring or management role. However, in order to maximize impact and to reduce the reporting and monitoring burden, it would probably make more sense to concentrate on a sectoral approach to programming in the key areas identified in the Mission's CDSS/Action Plan.

Local Currency Management Approach

In economic terms the only real resource provided through a Cash Transfer program is the Cash Transfer itself, when the U.S. dollars are made available for the import of goods. The local currency generations do not represent a "real," additive resource for the Jamaican economy. Although A.I.D. legislation requires local currency programs, there is no economic reason for such programs.

Since the local currency generated as the result of a Cash Transfer is not an additive resource to the local economy, an A.I.D. local currency program does no more than allocate existing local resources. Such programs may however, allow an A.I.D. mission to become involved in an LDC's budget and resource allocation process, to direct an LDC's resources into uses that support special A.I.D. development concerns. Some A.I.D. Missions have a highly structured, project-oriented program that directs an LDC's resources into activities that would not normally take place. In contrast, USAID/Jamaica has opted for a noninterventionist, budget attribution approach. The Mission has found that, overall, the GOJ development program is satisfactory. Thus, local currency is used to support regular, ongoing GOJ programs -- it is not a tool for directing or changing Jamaica's domestic resource allocation.

Macroeconomic Impact

As pointed out above, local currency generations are not a "real" additive resource. However, depending on how the program is managed, they can have at least a temporary effect on the money supply and inflation.

When Cash Transfer dollars are provided to the GOJ they can be used to finance imports, pay debt arrears, or added to foreign exchange reserves. No matter which use is chosen, an equivalent amount of local currency will be created. If the dollars are applied to debt repayment or added to foreign exchange reserves, there will be no immediate increase in imports but there will initially be an increase in local currency. With an increase in the money supply and no increase in the availability of goods, the effect will be inflationary in the near term. The GOJ creates additional local currency but no additional goods are available. If, on the other hand, the A.I.D. Cash Transfer is used to finance imports, there is an increase in imported goods and an equivalent amount of local currency is withdrawn from the economy. There is no inflationary impact. In the longer term, the inflationary impact of a given Cash Transfer is likely to be neutralized. Even if the dollars are not used for imports in the near term, they presumably will be eventually (since either debt repayment or additions to reserves bolster a country's import capacity). The effect, therefore, is likely to be one of leads and lags: initially inflationary, later deflationary.

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VIII. RELATIONSHIP TO IMF AND WORLD BANK PROGRAMS

A.I.D.'s policy reform efforts have been closely meshed with those of the IMF and World Bank. In almost all respects the three agencies have worked as a tripartite group with a shared and mutually supportive policy agenda. Within the shared agenda each agency has taken responsibility for a specific portion of the policy reforms.

The stabilization approaches used by the three agencies in the early 1980s did not solve the underlying problems facing the Jamaican economy. By the mid-1980s the approaches were expanded to include a more long-term structural adjustment approach. The individual agency programs and their linkages are described below.

The IMF Program

Since 1980 Jamaica has had four separate Standby agreements with the IMF: a three-year Extended Fund Facility in March 1981, a one-year Standby Arrangement covering 1984/85, a 22-month Standby in June 1985, and the present one-year Standby approved in March 1987. The IMF arrangements have been premised on the traditional IMF approach to balance of payments disequilibrium. Funding is provided in return for fiscal, monetary, and exchange rate measures intended to restore stability and provide the basis for economic growth. Primarily because of the collapse of bauxite prices in 1982, the restoration of external equilibrium, on which the 1981 EFF credit had been premised, did not occur. Instead, current account deficits and rising debt repayment have given rise to the need for continued high level assistance and IMF stabilization programs, as discussed in Chapter V above.

USAID Programs

From 1981 until May 1984, A.I.D. Cash Transfers were conditional upon GOJ compliance with IMF performance targets (although in a few cases they were linked to GOJ agreement to undertake an IMF program, as opposed to ex post compliance; see Chapter V). Following Congress's 1984 passage of the Kemp-Kasten Amendment, which prohibited direct A.I.D. linkage to Bank/Fund programs, A.I.D.'s focus shifted to longer term, structural adjustment issues, an area in which the World Bank had been active since 1982. As discussed elsewhere in this paper, A.I.D.'s policy agenda now covers divestment, income tax reform, market and price deregulation, trade liberalization, promotion of agricultural exports, and promotion of private sector development.

The World Bank Program

The Bank provided its first Structural Adjustment Loan (SAL; US$76.2 million) in June 1982. SAL I was followed by SAL II in FY 1983 ($60.2 million), and SAL III in FY 1985 ($55.0 million). The Bank provided technical assistance (of $6.1 million in FY 1982 and $9.0 million in FY 1985) to provide the research and analysis required to support the SAL policy reform efforts. The three SALs were followed in FY 1987 by sector assistance which focused on more specific sectoral problems --- Public Sector Adjustment ($20 million) and Trade and Financial Sector Adjustment ($40 million).

The World Bank SALs and sector loans focused on macroeconomic policy adjustments. They included some of the same macro issues included in the IMF programs, but the emphasis was more on the longer term factors holding back economic growth. Included were public sector enterprise efficiency, the public sector investment program, public sector divestiture, export promotion, trade liberalization, and financial (capital) market development and liberalization.

The Need for More Thorough Structural Change -- "The Fresh Eyes Report"

Although progress was made in both the stabilization and structural adjustment areas, especially from 1984/85, Jamaica's problems remained serious. Economic progress was slow, with limited prospects for strong, sustainable growth. Following a suspension of the 1985/86 IMF Standby Agreement, during a year of economic decline, Jamaica's Prime Minister requested the World Bank, IMF, and A.I.D. to mount a thorough study of Jamaica's economic ills in order to identify the policies which would reestablish economic growth. The assistance agencies were asked to step back and look at long-run structural problems and provide a new, fresh approach. In that spirit they were asked to do a "Fresh Eyes" evaluation. The joint evaluation team prepared its report in February 1986. They developed the following set of policy recommendations.

1. Fiscal, monetary, and exchange rate policy With Jamaica's fiscal deficit remaining large and inflation rates exceeding those of its trading partners, the foreign exchange rate was under continual pressure. A tight monetary policy had been used to support the exchange rate. The result was a crowding out of private sector investment. The report recommended relaxing the exchange rate policy along with fiscal and monetary adjustment to promote exports and private investment.

2. To achieve fiscal adjustment the efficiency of public enterprises had to be improved and more firms needed to be divested.

3. The monetary policy of tight credit and high interest rates needed to be reformed to remove the bias against the private sector.

4. The trade incentives system needed to be further improved to remove the remaining anti-export bias.

5. During the period of adjustment, the poor needed to be protected with targeted subsidies.

Conclusion; A.I.D., Bank, And Fund Coordination

Coordination of policies among A.I.D., the Bank, and the Fund has been outstanding. The apparent overlap between the IMF and USAID in the stabilization area during 1981-84 posed no difficulty, because in practice the IMF set the policy agenda. A.I.D. and the Bank have both worked in the areas of divestment, trade liberalization, export promotion, and price decontrol, but coordination of policy has been close. The Evaluation Team heard no examples of conflict, and no cases of the lead donors speaking with more than one voice.

Elsewhere there has been an informally agreed split of the policy agenda, as discussed above.

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IX. POLICY DIALOGUE AND PROGRAM COORDINATION

Policy Dialogue

Evolution of the Policy Dialogue Approach

A.I.D.'s ESF program in Jamaica has been implemented through a series of annual program agreements (P&E I through VII with supplements to CBI and P&E III, IV, and V). The strategy guiding the policy reform components of these programs has changed substantially over time, providing some useful insights into the policy dialogue process.

The conditionality stipulated in P&E I through IV (1/81 to 11/83) consisted largely of compliance with IMF and World Bank programs, studies to guide and plan future reform actions, and development of plans for implementing reforms. Under these programs, monitoring of GOJ performance consisted of official IMF and Bank correspondence assessing GOJ compliance with their programs and the completion of study reports and action plans.

In contrast, beginning with P&E IV.A, V, and V.S (agreements signed 5/84 through 7/85), conditionality became increasingly specific and detailed. For example, in the area of privatization, program agreements stipulated conditions such as GOJ publication of audited accounts of the operations of all public enterprises, lists of up to 30 public entities that would be privatized, and instructions for how the GOJ would deregulate commodity markets.

The greater specificity in P&E IV.A, V, and V.S agreements is consistent with A.I.D.'s standard operating procedures -- i.e., a contract agreement which stipulates funding levels for specified activities. Greater specificity also reflected the thinking of the mission director at that time. He believed that detailed conditionality was the correct and effective approach. Indeed, the GOJ had been slow to enact reforms prior to 1984/85, suggesting the need for greater pressure through more explicit conditionality. Failure to remain in compliance with IMF conditions during 1983/84 only reinforced this view.

Regardless of the motivation behind more explicit conditionality, the result was a deterioration of relations between A.I.D. and the GOJ. The specificity of P&E conditionality was perceived by the GOJ as unnecessarily heavy-handed and politically unacceptable. This led to replacement of the mission director and a major shift in the policy dialogue strategy.

USAID/Jamaica's Current Approach To Policy Dialogue

P&E agreements VI and VII (1/86 and 2/87) contain no explicit conditionality other than to stipulate that the GOJ will remain in compliance with the objectives of the program. Agreement between A.I.D. and the GOJ regarding actions to be taken is on a relatively informal basis. The process typically involves the Mission's economic staff meeting with GOJ counterparts appropriate for each area of the program to discuss possible reform actions. This results in a list of items which becomes the basis of discussions between the Mission director and the Prime Minister, who meet periodically to review the status and direction of GOJ policy. From these meetings, an agreement is usually reached on the areas where action will be forthcoming. The Mission monitors subsequent reform actions to assess the adequacy of progress, and reports in PILs and other program documentation. The GOJ documents its actions through official communication from the Prime Minister to the mission director. In effect, the design (selection of reform measures) and implementation (enactment of reforms) of P&E evolves over time according to changing economic and political conditions, and progress made under previous programs.

The standard "contract" approach to policy reform programs focuses on strict compliance with conditions stipulated in a program agreement. In contrast, USAID/Jamaica's strategy is to monitor the GOJ's overall efforts to improve the policy environment and assess performance on the basis of progress toward P&E policy objectives. For example, progress to divest GOJ holdings is reflected by the magnitude or economic significance of actions taken rather than whether the GOJ privatized precisely the set of organizations listed in an earlier program agreement.

Another way to understand the difference between USAID/Jamaica's approach and the preceding strategy (also used by other LAC missions for their ESF programs) is in terms of the basis of funding. Under the standard ESF approach, funds are disbursed on the expectation that the program agreement conditions will be met. Funding is thereby tied to completion of actions "promised" at the outset (akin to payment for services to be rendered). USAID/Jamaica's approach is to link funding to the adequacy of past action with the assumption that performance will continue to be sufficient (akin to payment for services rendered).

The distinction between the two approaches should not be overdrawn. The informal understanding reached between the Mission director and the Prime Minister on the actions to be taken by the GOJ in the coming months is, in effect, the "moral equivalent" of conditionality. The informal understanding is simply not put into a formal program agreement, thereby escaping the opprobrium of explicit conditionality. Implicit in this informal understanding between A.I.D. and GOJ is that a follow-on program is contingent on the GOJ holding up its side of this "good faith" arrangement.

The flexibility in the design and implementation of P&E, however, complicates the Mission's reporting to A.I.D./Washington. The approach used for other ESF Cash Transfer programs in the LAC region corresponds closely to routine operating procedures -- e.g., these are the specific actions which program funds "buy." USAID/Jamaica's approach is not so readily amenable to the standard Agency format. Monitoring progress under the current approach is also harder. Instead of an established checklist of actions to be taken, the Mission must assess the overall significance of the GOJ's performance in key program areas, as has been done to resolve conditions outstanding from preceding P&E agreements. In short, just as a degree of trust had to be established between the Mission director and the Prime Minister, the Mission director has to establish comparable trust with senior management in A.I.D./Washington. The record of achievement of P&E to date has been critical in selling the Mission's approach to Washington.

The Effectiveness of USAID/Jamaica's Approach

As part of a GAO review of A.I.D.'s ESF programs, the Mission's approach to policy dialogue was reported as effective and producing results. The GAO concluded that the pace of reform has increased; that periodic informal discussions between the Mission Director and the Prime Minister facilitate program implementation better than formal, infrequent negotiations; that a working relationship based on mutual appreciation of the other's concerns and requirements has been established; and that the GOJ continues to request A.I.D.'s assistance with policy reform.

This contrasts sharply with the preceding situation where considerable tension developed between the Mission and the GOJ. Confrontation was predictable when the pace of policy change was too slow, given the combative, legalistic content of the program agreements. Nor does it appear that explicit conditionality was particularly effective in achieving results. Satisfying the conditions of P&E IV.A through V.S has taken as much as three years in some cases. Because of changing circumstances in the interim and unrealistic or incorrect prescriptions from the outset, other conditions have had to be substantially modified or eliminated. In the end, detailed conditionality appears to have worked against the objectives of the program and complicated the Mission's situation.

The GAO assessment cited the following factors contributing to the effectiveness of USAID/Jamaica's policy dialogue approach: (1) agreement on overall objectives of the program, (2) the highest level GOJ involvement in the dialogue process combined with assignment of high quality GOJ staff to the program, (3) mutual understanding of the organizational and political requirements of the other party, (4) complementarity of P&E with IMF and Bank programs and close scrutiny of GOJ performance by the latter two organizations, and (5) less overt direction, which makes the dialogue process more politically acceptable to the GOJ.

The improved climate for negotiations created by the new dialogue approach is only a partial explanation of why the pace of policy reform increased. The GOJ had been dragging its feet on enacting reforms from the outset. It appears that the GOJ anticipated a recovery in the bauxite market after the 1982 fall in demand. There was a tendency to want to postpone painful measures of adjustment as long as recovery might occur to render them unnecessary. However, by 1984/85, it was clear that a recovery was not forthcoming, and the worsening of economic conditions made remedial action increasingly necessary. An additional factor was the pressure from the IMF in light of the government's non-compliance with the IMF program in 1983. Conversely, the recent improvement in economic conditions tends to reinforce the momentum of the reform process. It is also interesting that the World Bank's chief economist for Jamaica claims he is far more assertive than his predecessor. This is exactly the opposite pattern of USAID/Jamaica, suggesting that at least one major donor, often the IMF, needs to play the role of the "heavy" at any one time.

Conclusions

The laudatory conclusions of the GAO review appear justified in light of the fact that the Mission's approach has avoided the problems of the past and contributed to getting the reform process on track. This is not intended to be overly critical of those who followed a different tack earlier in P&E. It is likely that the current approach is feasible in part because of what preceded it. That is, the objectives of P&E were established, an approach to implementing the agenda was attempted, and the desire on the part of the GOJ not to operate under those rules again provides an underpinning to the current approach. Moreover, it is questionable whether the Mission's flexible approach could have been applied at the outset of P&E. Still, as LDC governments become increasingly familiar with the structural adjustment process, USAID/Jamaica's approach might become applicable.

Program Coordination

Examples of Program Coordination with P&E

The non-ESF-funded component of USAID/Jamaica's portfolio (DA and PL 480) is well coordinated with P&E. A number of projects share P&E objectives of growth through the development of an export-oriented economy and the reduction of the public sector through divestment and an expanded role of the private sector. At the sector level, a number of projects advance reforms consistent with P&E objectives. The implementation of P&E is also assisted directly by DA and P.L. 480 funded projects which provide technical assistance and other inputs. Other activities are designed to mitigate the adverse effects of structural adjustment and policy reform for groups at risk. Several examples illustrate this coordination.

The Technical Consultation and Training Grant (TC&TG) funds a variety of activities designed to strengthen private and public sector organizations important to developing an export-oriented economy and to supporting GOJ divestment. Depending on the functions and needs of the organization, TC&TG provides funding for technical assistance, market development and promotion, trade fairs, construction of facilities, improvement of water supplies necessary for tourism, seminars, publications, surveys and research, radio and television programs, purchase of computer equipment, training programs, and the International Executives Service Corp. program. Organizations which have received assistance include the Jamaica Manufacturers Association, the Jamaica Exporters Association, the Jamaica National Investment Program, the Jamaica National Export Corporation, the Jamaica Industrial Development Corporation, and various export manufacturers and producers (e.g., Kingston Heirlooms Ltd.). TC&TG has also provided technical assistance for GOJ divestment activities (e.g., hiring Rothschild and Sons for planning the privatization of the National Commercial Bank).

The P.L. 480 Title I program's self-help measures and local currency generations have also been coordinated with the objectives and activities of P&E. As an example of assisting private sector development, P.L. 480 self-help measures led to a 147 percent increase in the cost of powdered milk to stimulate fresh milk production. The program also supported measures to upgrade livestock genetics and to promote improved livestock health to develop the diary industry. P.L. 480 Title II generates grant funding for the Jamaica Agricultural Development Foundation (JADF), which provides venture capital loans, guarantees, and equity participation, as well as grants and technical assistance, to promote sustainable agribusiness and agriculture development. An important use of P.L. 480 local currency to offset the anticipated adverse effects of structural adjustment was J$48 million in funding for a national food stamp program targeted at the poor. Similarly, self-help measures included the packaging of small sachets of powdered milk with illustrative labelling explaining proper mixing and use to illiterates.

Other examples of coordination with P&E objectives or program implementation include the following.

- The National Development Foundation has received A.I.D. funding to develop its services and increase lending to small and micro-entrepreneurs.

- P.L. 480 Section 108 and DA funding are provided to the Trafalgar Development Bank to finance approximately $6 million in new projects in the private sector.

- In health, A.I.D. projects support (1) divestment of GOJ support services in tertiary health care facilities, (2) reform of the hospital fee structure to reduce GOJ expenditures, and (3) expansion of the role of the private sector in health care delivery services.

- In housing, A.I.D. supports the reduction of housing subsidies through the introduction of a new mortgage.

- In education, A.I.D. is funding (1) the construction of additional HEART academies, which provide vocational training for the unemployed, and (2) the development of the management training programs needed for private sector development.

Conclusions

More examples of coordination with P&E objectives could be cited, but the preceding list illustrates several important points.

First, certain implementation requirements of structural adjustment and policy reform programs may be better dealt with through a project as opposed to a program mode of assistance. Other policy reform programs have included a project-like component to obtain technical assistance, commodities, and training, but this increases program management demands. Alternatively, USAID/Jamaica's use of other parts of the portfolio to assist the GOJ with P&E implementation may increase the management demands of these projects, but it avoids having to establish an implementation unit within the program. A large portfolio adds to the feasibility of this approach but it should also be applicable in smaller A.I.D. programs.

Second, the mission has avoided cross-conditionality within its portfolio. P.L. 480 self-help measures do not depend on GOJ action on P&E reforms, and vice versa. Cross-conditionality of that sort is likely to magnify problems that may arise within either program. Third, the coordination and complementarity across the portfolio contributes to the policy dialogue and reform process. Coordination of this sort may well increase and broaden the development impact of Cash Transfer programs.

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Annex A

Macroeconomic Analysis By Sector

1. International Trade, Balance of Payments, and Exchange Rate

a. Bauxite Exports

Among the determining factors in Jamaica's balance of payments since 1980, the decline in earnings from bauxite/alumina has been dominant. Bauxite earnings, which amounted to 78 percent of commodity exports, or 63 percent of exports of goods and services (after the inclusion of tourism) in 1980/81, declined at a rate of 15.0 percent per annum during 1980/81 - 1986/87, notwithstanding a modest recovery in the last year of the period. Jamaica has experienced an exceptionally large inflow of foreign aid for a country of its size. Nevertheless, the cumulative decline in bauxite earnings -- that is, the total of each year's difference from 1980/81 earnings -- was $2,128 million, or 27 percent more than the net inflow of official capital during the period. Chart A.1 depicts output and price trends during 1960-85. As can be seen, declining world prices since 1982 were only part of the story. Output has declined precipitously since the initiation of the bauxite levy in 1974, and Jamaica's share of the world market fell from a peak of about 75 percent in 1960 to little over 20 percent in 1985.

b. Other Current Account Factors

Tourism recovered from its late 1970s slump; earnings from that sector increased at a rate of 14.4 percent during 1980/81 - 1986/87. The gain in non-traditional exports to the nonCARICOM market, mostly manufactured goods benefitting Chart A.1 here from the government's essentially pro-export policies, registered a 15.8 percent rate of increase. However, at US$ 173 million in 1986/87, non-traditional non-CARICOM exports are not yet a significant factor in Jamaica's overall balance of payments. The CARICOM market, it should be noted, has been stagnant since the devaluation of the Jamaican dollar in 1983/84. On the debit side, interest payments on the foreign debt will be an increasingly negative factor. Their influence has been muted by the generally declining level of international interest rates during the 1980s. Imports have generally declined since 1981/82, partly because of lower fuel prices. When fuel and bauxite sector imports are excluded, all other imports rose strongly during 1981/82 and 1982/83, fell back sharply during 1983/84 - 85/86, and have since then been rising. However, they are not likely to regain their 1981/82 - 82/83 levels, even with a relatively strong increase this fiscal year.

c. Official Capital Inflow and Debt Repayment

Even with a flat trend in imports, Jamaica incurred current account deficits in its balance of payments averaging $289 million annually during 1981/82 - 86/87. Net official capital flows have on average financed $267 million, or 92 percent of the deficits.

The inflow of net official capital, as shown in Table A.1, has varied from year to year, but has remained large, averaging US$277 million during 1981/82 - 86/87 (despite a decline to US$ 2 million in the latest year). As shown in Appendix Table 3, however, the underlying situation is one of increasing debts falling due, calling for annual reschedulings, also on a generally rising trend. As discussed in Section V.A, the net inflow of stabilization and structural adjustment turned negative in 1986/87, with the IMF taking more money out of the country than it put in.

Annex Table A.1: Simplified Balance of Payments
(US$ million)
(Fiscal years ending March 31)

	1982	1983	1984	1985	1986	Prel. 1987
Current Account	- 438	- 541	- 279	- 239	- 253	- 85
Exports	889	734	722	673	539	610
(Bauxite)	(669)	(473)	(477)	(382)	(284)	(297)
Imports, c.i.f.	1,488	1,472	1,251	1,221	1,034	1,035
(fuel)	(279)	(267)	(265)	(294)	(237)	(164)
(non-fuel)	(909)	(974)	(770)	(747)	(692)	(799)
Tourism, net	301	317	361	389	397	515
Interest payments	- 219	- 250	- 262	- 279	- 309	- 305
Other, net	79	129	152	147	155	148
Capital Account	481	321	- 170	736	330	141
Official net	427	394	62	561	215	2
Private, net	53	- 74	- 231	175	115	137
Overall Balance	43	- 220	- 448	497	76	55
Change in Reserves:						
(inc. in assets)	- 43	220	448	- 497	- 76	- 55
Assets	- 57	44	27	- 127	- 4	42
Liabilities	14	176	421	- 371	- 72	- 98
IMF (net)	(168)	(134)	(39)	(39)	(78)	(-87)
Arrears	(-106)	(98)	(332)	- 345	(-53)	- 33
Other	(- 48)	(- 56)	(50)	- 65	(3)	(22)

Memorandum Items:
Medium & long-term

debt as % GDP	71	73	91	136	130	--
Debt service ratio (before rescheduling)	29	46	42	46	66	--

Source: Bank of Jamaica and IMF estimates.

d. Exchange Rate

For purposes of its stabilization agreements with Jamaica, the IMF calculates a "real effective exchange rate." The calculation measures the movement of the Jamaican dollar (J$) against a trade-weighted average of exchange rates of Jamaica's main trading partners, adjusted by the relative changes in consumer price indexes of the same countries. The real effective exchange rate, therefore, constitutes a measure of the competitiveness of the J$. Upward movements in the rate indicate a lessening in competitiveness, downward moves an increase. The real effective exchange rate appreciated 15 percent, i.e., a substantial loss of competitiveness, from May 1979 to January 1983, during which the J$ was pegged at J$ 1.78 = US$ 1.00. With pressure building up on reserves and an increasing share of transactions taking place outside the official market, the authorities at the time decided to formalize the parallel market, through which an increasing proportion of transactions had been taking place. Following are the key dates and actions with respect to the exchange rate:

January, 1983 - Parallel market officially recognized; parallel rate settles at around 2.60.

June, 1983 - The proportion of current transactions undertaken in the parallel market reaches 40 percent. Traditional exports, half of essential non-oil imports, and official capital transactions continue at the official rate.

August, 1983 - Banks are instructed to peg the parallel rate at 2.94, but the rate proves too low, and an increasing number of transactions take place at a third unofficial rate.

November, 1983 - The exchange system is unified at 3.00 pending the introduction of an auction system.

December, 1983 - The auction system is introduced. The rate moves quickly to 3.40.

January, 1984 - With the real effective exchange rate 33 percent below its peak level of August 1983, the auction system is dropped, and the rate pegged at 3.25.

March, 1984 - An enlarged auction is instituted, with an exchange band introduced, to be adjusted periodically according to demand.

November, 1984 - Rate reaches 4.86, representing a real effective depreciation of 42 percent since August 1983.

April - September, 1985 - Rate reaches 5.50 during the April - June quarter and 5.80 during July - September. At 5.80, the real effective rate is 7 percent below the November 1983 level.

October, 1985 - The rate reaches 6.40, at which point the authorities intervene in the auction market to bring it back to 5.50.

November, 1985 - Present - A "managed auction" system prevails, with the rate remaining at 5.50. With the U.S. dollar and inflation within Jamaica both declining, the real effective exchange rate remains relatively stable.

2. Fiscal Policy

a. Trends in the Public Sector Deficit

For analytical purposes, the public sector accounts are divided into three groupings: the Central Government; various local government authorities, statutory bodies, non-financial public enterprises, and registered companies with government ownership participation, collectively termed "Rest of Public Sector"; and the Bank of Jamaica. The overall public sector deficit rose from 15.9 percent of GDP in 1980/81 to a peak of 19.6 percent in 1983/84, and subsequently declined to an estimated 5.5 percent in 1986/87. Except for the adverse movements in foreign interest payments and the bauxite levy, which are largely beyond the control of the fiscal authorities, the record for the 1983/84 period would have been better. From 1981/82 to 1985/86, foreign interest payments rose from 7.3 to 14.8 percent of GDP; bauxite earnings declined from 4.4 to only 0.4 percent of GDP. The overall results are summarized in Annex Table A.2.

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Annex Table A.2 - Public Sector Balance as Percent of GDP

	1981/82	1983/84	1985/86	Prel. 1986/87
Central government	-15.8	-15.8	- 5.5	- 1.4
Rest of government	- 0.1	- 1.9	- 1.1	1.6
Bank of Jamaica		- 1.9	- 7.1	- 5.7
Public Sector	-15.9	-19.6	-13.8	- 5.5

Source: IMF

As can be seen, the overall improvement was concentrated in the Central Government, whose deficit declined to 1.4 percent of GDP in 1986/87. The Bank of Jamaica, on the other hand, has incurred a generally rising deficit owing in large part to incurring foreign debt at market-related interest rates during a period of overvaluation of the currency.

b. Central Government

(1) Expenditure

Central government expenditure declined from 44.1 to 32.4 percent of GDP during 1981/82 - 86/87, notwithstanding the adverse trend in interest payments mentioned above. The reductions were especially pronounced in capital expenditures and wages, the latter reflecting large-scale personnel reductions in 1984/85, as well as a decline in real public sector wages during the period. Nominal wage increases averaged 11 percent in 1984/85 and 15 percent during 1985/86, which compared with increases in consumer prices of 15 and 30 percent for those two years. The government increased its expenditures on fixed investments through 1982/83, in which year they amounted to 7.5 percent of GDP. Thereafter, fixed investments fell steadily to 2.5 percent of GDP in 1985/86, before rising an unknown amount in 1986/87. The reduction affected road construction, school construction and renovation, hospitals, and police stations. Table 3 summarizes the trend of Central Government expenditures during 1981/82 - 1986/87.

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Annex Table A.3:
Central Government Expenditures as Percent GDP

	1981/82	1983/84	1985/86	1986/87
Total Expenditure	44.1	38.3	32.0	32.4
Current	32.1	31.6	27.1	26.0
Interest	7.9	10.3	10.8	10.5
Wages & Salaries	13.7	12.8	9.0	N/A
Other	10.5	8.5	7.3	N/A
Capital	12.0	6.7	4.9	6.4

Source: IMF

(2) Revenues

Income taxes have been the most important revenue source in Jamaica, accounting for about 40 percent of all tax receipts during the decade. The share of corporate taxes within the total increased until 1985/86, but this situation appears to be changing as a result of the personal tax reform introduced in January 1986 (discussed in detail in Section V.B.). Taxes on domestic production and consumption account for about a third of revenues, and import duties and surcharges for the remainder. Import taxes are a welter of CARICOM and external tariffs, special surcharges, and stamp duties that historically have been manipulated for revenue purposes. Both the World Bank and A.I.D. have been working toward a rationalization of the import tax structure, as discussed in Section V.C.

Overall tax revenue declined as a share of GDP from 1981/82 to 1983/84, largely because of the decline in the bauxite levy mentioned above, then rebounded strongly to reach 30.2 percent of GDP in 1986/87. The economic recovery, the income tax reform, and a recovery in bauxite production in 1986/87 were responsible for the recent improvement. Table 4 provides summary data for revenues during the period under review.

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Annex Table 4 - Central Government Revenues as Percent of GDP

	1981/82	1983/84	1984/85	1985/86	1986/87
Total Revenue	28.3	23.7	27.2	26.2	30.2
Tax Revenue	21.7	20.3	20.5	22.6	26.0
Income taxes	10.0	9.0	9.2	9.7	N/A
Property taxes	0.5	0.4	0.2	0.2	N/A
Indirect taxes	8.4	8.2	8.0	8.0	N/A
Taxes on foreign trade	2.7	2.7	3.0	4.7	N/A
Bauxite Levy	5.6	2.5	4.9	2.3	3.2
Divestment	--	--	--	--	0.2
Grants	--	--	0.3	1.0	0.9

Source: IMF

(3) Financing

In Jamaican budget accounting, only the grant portion of foreign aid appears above the line under government revenues. Net loan assistance appears below the line as financing for the budget deficit. During 1981/82 - 1986/87, foreign assistance accounted for 56 percent, domestic bank financing for 44 percent of all deficit financing. In no single year has foreign aid covered all of the deficit, although it came close at 98.4 percent in 1982/83, which was the peak year for stabilization and structural adjustment aid from the IMF, World Bank, and USAID. At the other extreme, net foreign financing in 1986/87 was a negative J$ 338.6 million (US$ 61.6 million). The situation could be entirely accounted for by the IMF, which in that year took US$ 87 million more out of the country, in repayments of maturing credits, than it put in in new credits. A detailed summary of deficit financing for the period 1981/82 - 85/86 appears in Appendix Table 15.

c. Rest of the Government and Bank of Jamaica

Appendix Tables 11 and 12 provide data on the rest of the government and the Bank of Jamaica. Worthy of note is the dramatic improvement in the Selected Public Entities, a group of public enterprises including Air Jamaica, the Jamaica Commodity Trading Company (JCTC), and 17 other enterprises engaged in broadcasting, public utilities, hotels, and banana and sugar production and trading. With substantial assistance from the World Bank's Public Sector Improvement Program (PSIP), the consolidated balance on current operations of the public entities went from a deficit of 1 percent of GDP in 1981/82 to a surplus of 6 percent in 1985/86. The improvement resulted from both rationalization of operations and increases in revenues though price/tariff adjustments since 1983/84. Since mid-1983, there have been significant price increases for petroleum products (50 percent), water tariffs (436 percent in three stages), electricity rates (115 percent), telephone charges (50-100 percent), and the cost of basic foods under subsidy (45-160 percent).

3. Privatization and Divestment

As an area in which A.I.D. has close involvement, divestment is discussed in detail in Section V.B.1.

4. Monetary Policy

a. 1981/82 - 1983/84

Net domestic credit of the banking system expanded at progressively higher rates during 1981/82 - 1983/84, reaching 42 percent of banking system liabilities outstanding at the beginning of the year, in 1983/84. Net credit to the public sector was relatively restrained during the first two years of the period owing to very large availabilities of external financing, but with foreign capital inflow down slightly and the public sector deficit up sharply in 1983/84, net credit to the public sector increased by 46.4 percent. The result was a crowding out of private investment, as private sector credit growth slowed. Expansion of private sector credit averaged 32 percent per annum during the period and broad money (M2) increased at a rate of 25.2 percent. Consumer prices rose by only 7.4 percent in 1981/82 and 8.2 percent in 1982/83, but stepped up to a 21 percent increase in 1983/84, under the impact of devaluation. Since the degree of devaluation effected was not sufficient to reflect the real decline in the Jamaican dollar, the GOJ maintained a generally restrictive credit policy, along with extensive import controls, to contain import demand.

b. 1984/85 - 86/87

With the beginning of a concerted effort to reduce the public sector deficit and a record high level of external financing, credit to the public sector contracted by 7 percent in 1984/85. Credit to the private sector was also held under tight restraint, rising by only 6 percent, and the rate of increase in money supply declined. Inflation, however, reached 29.7 percent under the impact of continued devaluation. The Jamaican dollar declined by 59.7 percent during the course of the year. External financing was sharply lower in the next two years, and public sector credit expanded by an average 19 percent despite the continuing decline in the public sector deficit. Credit to the private sector was kept under tight restraint in 1985/86, as GDP declined by 4 percent and price inflation eased to 19.8 percent. In 1986/87, with the public sector deficit down to 5.5 percent of GDP, the authorities permitted some easing of credit. Private sector credit rose by 20.9 percent in that year, permitting a resumption of economic growth. The 12-month increase reached 33 percent as of June 1987. Price inflation in 1986/87 was a relatively moderate 7.7 percent, reflecting not only the reduction in the overall public sector deficit, but also exchange rate stability.

The Jamaican dollar has held at 5.50 to the U.S. dollar since December 1985. Stability in the J$:US$ rate has owed much to the precipitous decline in the U.S. dollar since 1985. Given the de facto link between the Jamaican dollar and U.S. dollar, the Jamaican dollar has been declining relative to the currencies of Jamaica's other trading partners. The real effective exchange rate, measuring the position of the Jamaican dollar relative to a weighted average of all its trading partners has been little changed since the end of 1985.

Table A.5 shows annual percent increases in credit and money supply (M2) during 1981/82 - 1986/87:

Annex Table A.5: Annual Increases in Credit 1981/82 - 86/87
(percent)

	81/82	82/83	83/84	84/85	85/86	86/87
Banking System						
Net dom. credit	14.3	33.7	42.0	-9.0	19.4	17.7
Net credit to public sector	7.2	19.2	46.4	-7.2	13.5	8.2
Credit to private sector	31.5	36.0	28.4	5.7	13.7	20.9
Broad money	28.7	25.0	21.9	18.8	26.0	22.4

Source: IMF

5. Manufacturing

With the revival of domestic demand after the change of government, the manufacturing sector experienced a degree of recovery. Output expanded by 8 percent between 1980/81 and 1982/83. In the confusion surrounding the balance of payments and exchange rate crises of 1983/84, output first levelled off, then declined by 3.6 percent in 1984/85. Preliminary indications point to a gain of about 3 percent in 1986/87.

Within the sector, structural shifts have taken place, usually in the right direction, although on the basis of interviews conducted by the Evaluation Team, the process has been anything but smooth. In some areas, the expected has occurred: garment manufacturers have done relatively well as a result of their preferred position in the U.S. market, in part through Section 807; and non-traditional exports to non-CARICOM markets have increased for those clever enough or well enough placed to take advantage of the declining Jamaica dollar (at least until the renewed freeze on the rate in 1985). However, numerous potential exporters have complained to us of their inability to obtain needed imported inputs, and others have spoken of the confusion arising from the constantly changing mix of import duties and domestic tax rates. Concerning import taxes, the continuing high level of effective duties on capital goods relative to duties on consumer goods has received considerable criticism, as has the customs bureaucracy itself. The latter are widely accused of discrimination and worse in their administration of import regulations and duties. All manufacturers interviewed allowed that the situation is better than it was in the 1970s, but from their viewpoint the present situation does not yet constitute a good investment climate.

6. Agriculture

Following significant increases in producer prices, agricultural output ended a long period of stagnation and rose by 7.8 percent in 1983/84 and another 6 percent in 1984/85. The gains were entirely in domestic agriculture, as opposed to the traditional export crops. Sugar and banana production declined through 1984 owing to low producer prices and general mismanagement. Both have staged recoveries beginning in 1985 as a result of restructuring programs involving the transferring of public ownership to private hands, or in some areas, joint venture undertakings. Poor weather caused a general setback in 1985/86, with agricultural output falling 1.7 percent. From 1980 to 1986/87, agriculture increased its share of GDP from 8.1 to about 8.9 percent. Production and exports of non-traditional corps did significantly better than traditional crops.

Annex B

Chronology - Stabilization and Structural Adjustment Aid

Calendar Years	IMF	IBRD	USAID
1981			Jan. P&E I,$40 M. Agreement with IMF (disbursement Mar. '81). Feb. P&E II, $38 M. Compliance with IMF (disbursement Jan. '82).
	Mar. EFF. 3-yr.;		

	SDR 477m, Monetary, fiscal, bal. of payments. CFF, SDR 37m.		
1982		Mar. SAL I, $75m. Public Sector improvement, trade restrictions, marketing regs., sugar and banana inds., export promotion, est of parallel rate mkt.	
	Aug. CFF, SDR 19.4m		
			Sept. CBI Supp., $50.0m. Compliance with IMF, IBRD. Dec. P&E III, $25.0m. Compliance with IMF, IBRD.
1983	Mar. Compliance targets not met. Waiver granted.		Mar. P&E IIIs, $29.4m. Compliance with IMF, IBRD. Examine feasibility of FX-denominated accounts.
		June SAL II, $60m. Exchange rate unification, fiscal targets, market deregulation, completion of SAL I tasks (privatizxation and pub. sector improvement, import restrictions).	
Calendar Years	IMF	IBRD	USAID
	Nov. GOJ out of compliance. EFF terminated (SDR 402 of 477 drawn).		Nov. P&E IV, $25.0m. Agreement with IMF (disb. Nov. 25, 1983).
1984			May P&E IVa, $25.0m. Agreement with IMF regarding FX system, compliance with IBRD SAL II, divestment, ag. marketing decontrol (disbursement June '84).
	June Standby, SDR 64m, 1-yr. exch. rate, fiscal, trade liberalization, elimination of commercial arrears. CFF, SDR 72.6m.		
		Nov. SAL III, $55m. ag. pricing, ag. marketing regs., trade liberalization,	Dec. P&E V, $65m. Divestment, trade restrictions, price controls.

		export incentives.	
1985	June Standby, 22-mo., SDR 115m. Fiscal, exch. rate. July SDR 15m drawn, Standby suspended.		July P&E Vs, $34.6m. Divestment ag. marketing deregulation, promotion of private investment.
1986	Jan. Waiver requested and granted (41.6 drawn of original 115).		Jan. P&E VI, $39m. Tax reform (personal), divestment, inmport tariff structure, customs reform, investment promotion.

Feb. Joint. GOJ requests "Fresh Look" by IMF, IBRD, USAID. Calendar

Years	IMF	IBRD	USAID
1987	Mar. Standby, 15-mo., SDR 85m. Monetary, fiscal, exch. rate.	May Trade and Financial System Adjustment, $40m. Investment promotion, export promotion, capital market development. Nov. Public sector improvement, $20m.	Jan. P&E VII $23m. Tax reform (corporate income and indirect), divestment, tariff system, customs reform, investment promotion (disb. Feb. & Apr. '87).

Annex C

Chronology - P&E Conditionality in the Stabilization Area

P&E grants I-IVA called for GOJ agreement with the IMF, or meeting specific conditionality requirements of the IMF and/or the World Bank. P&E III-IVA, it should be noted, contained provisions additional to those of a purely stabilization nature. This Annex summarizes the stabilization requirements regarding each credit:

P&E I; Jan. 1981 (US$40 million): The GOJ was to obtain

IMF approval for its planned 1981-83 economic program.

P&E II; Feb. 1981 (US$38 million): The GOJ would have to be certified as meeting substantially all of the provisions of the EFF credit then being negotiated. The EFF Agreement, approved in March 1981, specified ceilings or performance targets in the areas of domestic bank credit expansion, balance of payments (framed in terms of the net international reserve position of the Bank of Jamaica), external arrears, and exchange rate practices.

CBI Supplemental; Sept. 1982 (US$50 million): Although carrying the term CBI, this credit had the nature of a P&E Agreement. It called for evidence that the GOJ was in substantial compliance with the terms of the EFF credit, and the World Bank's first Structural Adjustment Loan (SAL I). The latter, approved in March 1982, contained at least one provision of a stabilization nature, namely, that the GOJ would move to the adoption of a parallel exchange rate market.

P&E III; Dec. 1982 (US$25 million): Called for evidence of substantial compliance with IMF conditions, and evidence that the GOJ, IMF, and World Bank had reached agreement on an export incentives program, to include the establishment of a parallel rate market.

P&E III.S; Mar. 1983 (US$29.35 million): Called for substantial compliance with IMF terms.

P&E IV; Nov. 1983 (US$25 million): By the time of this Agreement, the IMF had terminated the EFF because of GOJ failure to comply with performance targets as of September 30, 1983. The GOJ had requested a waiver, and the GOJ and Fund had reached an understanding that the expired EFF would be replaced by a Standby Agreement, provided the GOJ would undertake certain actions in the interim. P&E IV provided that the GOJ obtain IMF verification of GOJ assurance that those actions would be taken.

P&E IVA; May 1984 (US$25 million): Called for IMF certification that the GOJ had reached agreement on actions to be taken pursuant to a new Standby Agreement. The latter went into effect in June 1984.

Annex D

Dollar Impact of P&E Assistance
(Methodology from "Fresh Eyes" Report, 1986, Annex X)

It is common practice to use a social discount rate of 10 percent in valuing national development projects. This rate may, in fact, be low. The average commercial cost of funds over the period 1981-87 was well above 10 percent. Consequently, this rate undoubtedly understates the opportunity cost of the funds, but is used in Annex Table D.1 below to show the potential yield on these flows under the following conditions:

(1) Earnings are not compounded. Thus it is implicitly assumed that the earnings in each year are not added to the national stock of productive capital. Instead, it is assumed that the income is used to finance consumption and domestic savings.

(2) Each year's official capital inflow is invested in income-producing facilities yielding income of 10 percent per annum net of capital consumption. Thus the relevant base increases each year by the amount of inflows in that year.

(3) The inflows in each year generate one-half year's net income in the year in which they are received, and a full year's income thereafter.

(4) GDP growth (from the 1981 level of US$ 2,100 million) is attributed exclusively to the income generated by the P&E inflow.

(5) The capital/output ratio is taken as 10, a highly conservative assumption.

Annex Table D.1
Hypothetical Effect On GDP of P&E Receipts
(US$ millions)

	1981	1982	1983	1984
P&E Disbursements	40.0	38.0	100.0	29.3
Cumulative stock	20.0	59.0	128.0	192.6
Net income on cumulative stock	2.0	5.9	12.8	19.3
Hypothetical GDP	2,102.0	2,106.0	2,113.0	2,119.0
Hypothetical growth rate (percent GDP)	0.1	0.2	0.3	0.3

	1985	1986	1987
P&E Disbursements	90.0	73.5	23.0
Cumulative stock	252.3	334.0	382.3
Net income on cumulative stock	25.2	33.4	38.2
Hypothetical GDP	2,125.0	2,133.0	2,138.0
Hypothetical growth rate (percent GDP)	0.3	0.4	0.2

The foregoing analysis does not mean that P&E assistance actually resulted in a 1.8 percent increment to growth during

1981-87. The similar analysis, contained in Annex 10 of the "Fresh Eyes" Report, shows a hypothetical 13.9 percent impetus to GDP growth from all forms of net Structural Adjustment and Stabilization aid during 1981/82 - 85/86, yet actual GDP growth during this period was minus 0.4 percent. The point, with regard to both P&E and overall foreign assistance, is that this is the impact that might have been expected on the basis of the stated assumptions, and assuming that the funds were deployed in such a way as to earn the stated rate of return. No account is taken of the collapse in bauxite earnings after 1981, nor of other factors tending to a lower, even negative, rate of return. To the extent the aid inflow is both less productive, and contributes to the accumulation of foreign debt and future debt service obligations (which is not the case with P&E assistance), the long-term effect of foreign aid can be much reduced or even negative.

Annex E

Non-traditional Exports of Manufactured Goods, Excluding Section 807 Exports, to Non-CARICOM Markets

To obtain an estimate of non-traditional exports of manufactures to non-CARICOM markets, excluding goods exported to the United States under Section 807, the available data on total exports of non-traditional goods to non-CARICOM markets (Annex Table E.1) is adjusted to exclude exports of agricultural products and Section 807 exports. For the purpose of simplification, no adjustment is made to reconcile the different fiscal year accounting bases for the data sets (the non-traditional export data being for Jamaican fiscal years, the other export data for calendar years).

Agricultural Exports: Agricultural exports, excluding bananas (which are already excluded from the data on non-traditional exports), were US$ 16.5 million in 1981 and US$ 23.1 million in 1985. Applying the trend rate of increase (8.8 percent) to the 1985 figure, 1986 exports are estimated as US$ 25.1 million.

Section 807 Exports: According to the Statistical Institute of Jamaica (Annex Table F.3), exports of "textiles, wearing apparel and leather" were US$ 9.9 million in 1981, US$ 37.9 million in 1985 and US$ 54.8 million in 1986. In 1985 (data not available for 1986), exports of clothing totalled US$ 36 million (Appendix Table 4), or 95 percent of the larger category. Applying the 95 percent factor to the larger category, clothing exports in 1986 are estimated as US$ 52.1 million. In 1986, the United States accounted for 55 percent of Jamaican exports. Given the existence of Section 807, the U.S. share for clothing exports must have been much higher; the assumption here is 80 percent. Section 807 exports in 1986 are, therefore, estimated as US$ 41.7 million (52.1 X .8 = 41.7).

Non-traditional exports of manufactures to non-CARICOM markets are estimated as US$ 67.5 million in 1981, US$ 106.2 million in 1986, as follows:

	(US$ millions)	
	1981	1986
Non-traditional exports to non-CARICOM markets	84.0	173.0
Less: Agricultural Products	-16.5	-25.1
Section 807 products	-0-	-41.7
Non-traditional exports of manufactures, excluding Section 807, to non-CARICOM	67.5	106.2

Annex F

Additional Information - Section V.C.: Trade and Private Sector Development

1. Import Restrictions

Items imported only by JCTC: foods (fish, diary, rice and corn, soybean oil), fertilizer, pharmaceutical products, automobiles, chassis for trucks and tractors, and some wood products (pitchpine).

Import licenses and quantitative restrictions - As a part of a five-year program to dismantle trade restrictions, the GOJ removed 60 quantitative restrictions in 1982. Quantitative restrictions were removed on many raw material items and capital imports by 1985, but a number of these (80) were moved to a restricted import list. An AID report (November 1986) says 160 items remained restricted. Some items removed from licensing requirements, such as processed fruits and vegetables, were placed on the restricted list after imports surged.

The GOJ has moved some items from quantitative restriction to the system of reference prices plus stamp duty (34 items that include pickles, berries, preserves, fruit juice). They moved other items to a system of reference price, stamp duty, and CET duty (11 items that include fresh and processed vegetables and pears).

Additional duties were imposed as quantitative restrictions were lifted. Stamp duties were imposed in 1985 ranging from 10 percent to 30 percent depending on the good.

Basic food, fertilizer, other agricultural inputs, pharmaceutical products, motor vehicles, CARICOM imports, and imports by exporters were exempt from this duty. Additional stamp duties were imposed in February 1986 (domestic manufacturers also pay the consumption tax and an additional excise tax).

The GOJ reduced the maximum import duty to 68 percent from a range of up to 200 percent in 1987. The duty is made up of the CET and the stamp duty, both of which can vary. (A limited number of items such as agricultural products and luxury goods carry a higher tariff.) Some items were removed from stamp duties (31 items of fruit and vegetables). Others were removed from reference prices, but retain the stamp duties (8 items that include vegetables and nuts). The consumption duty remains around 27 percent and is in addition to the import duties.

Duty exemptions were abolished in 1987, but extend to the end of the period for which they were granted. Duty exemptions were provided under several authorities: (1) Industrial Incentives Act, which covered bauxite, fuel, basic foods, drugs, plus 135 enterprises; (2) the discretion of the MOF, which covered the hotel and motion picture industry, public transportation, the University of the West Indies, and direct government imports; (3) the Group of 77, a list of 77 categories of exemptions; (4) KFZ enterprises and manufactures under the assembly provision of the U.S. tariff code; and (5) the CET statutory rate when it is zero. Some of these are considered to be justified exemptions. These include bauxite, fuel, assembly, and the CARICOM tariff rate.

Items removed from duty exemption range from ambulances for sugar estates to goods imported for public sector industries such as electricity to uniforms. Exceptions that still remain include:

- Production inputs and machinery (under Export Industry Encouragement Act) can be imported without duty or will be compensated for duties with an export rebate scheme when 100 percent of the exports go to markets outside CARICOM.

- Categories under Ministerial discretion such as emergency, international agreement, charitable programs, gifts to health and welfare programs can be imported duty free.

- Remaining items under the Group 77 are still exempt. Fifty items were removed from exemption in March 1987.

The GOJ plans to introduce a minimum tariff and a tariff rebate system by 1988. The plan is to have import duties at 10 percent for raw materials, 20 percent for capital, and 30 percent for consumer goods by 1988.

2. Market Deregulation

In 1985, there were about 40 items on the three controlled import lists. The "A" list had 13 items including animal feed, bread, imported cornmeal, dried and salted fish, flour, gasoline, kerosene, skimmed, dried, and powdered milk, canned sweetened and condensed milk, bulk rice, and sugar. List "B" had 8 items including cement, steel bars, local rum, and recombined milk. List "C" had 20 items, including drugs, motor vehicles, contraceptives, lumber, hardware, butter/margarine, soap, cooking oil, cement, tires, chicken, local cornmeal, cooking gas, rice, and canned sweetened and condensed milk.

In 1984, the Ministry of Finance increased payments to JCTC to J$100 million to minimize price increases for basic goods. JCTC incurred subsidies on fresh milk of J$4.2 million, sugar (condensed milk) of J$3.5 million, flour (bread) of J$2.0 million, drugs of J$1.1 million, and fertilizer of J$.8 million.

Controlled items on the "A" list now include foodstuffs such as dried fish, sardines, cornmeal, bread, flour, cooking oil, condensed milk, sugar, animal feeds, broiler meat, gasoline, diesel oil, and kerosene. The "B" list includes gas and steel bars, and the "C" list includes drugs and motor vehicles.

3. Export Marketing Organizations

The Banana Company (BANCO) was replaced with a producer-controlled company (BECO). One new firm exports coffee. The CIB is responsible for quality control and export licensing of other coffee exporters. No new firms have begun to market cocoa yet. The CIB handles cocoa from collecting to export marketing. It also regulates the industry and is responsible for quality control. There are at least three new citrus exporters, mainly of fresh fruit. The CGA is a growers organization that regulates the industry subsidiary, JCG, and CGA owns one of the two processors. Pimento and coconut were not deregulated.

Deregulation of the banana industry has stimulated investments and improvements in the industry. Several new banana projects are bringing about a recovery in banana production for export (see Table F.1). Output could increase to 108,000 mt within the next 5 years, including the 3,800 acres of small growers. In 1985, export production yields averaged 2.5 nt/acre. Prior to that yields averaged 1.1-1.4 nt/acre. The result is largely from efforts to improve yields. Banana exports more than doubled in 1986 (see Table F.4).

Annex Table F.1

Banana Production, by 1986
(Acres)

	Acres in Production	Acres Planted	Planting Target	Yield m/acre
Project 1	930	2,145	3,000	17i
Project 2	233	610	2,000	22i
Project 3	268	348	1,600	8r
New production	1,431	3,111	6,600	

i = irrigated; r = rain-fed
Source: FAO/WB report, 9/86

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Annex Table F.2
Coffee Plantings
(Acres)

	Blue Mountain		Lowland	
	6/1982	2/1986	6/1982	2/1986
Planted acres	2,300	4,500	-	18,000
Bearing acres	2,100	3,000		
Planned acres	6,500	5,500		

Source: FAO World Bank

Management in the coffee industry is improved. Planting programs are being implemented with EEC money and Japanese commercial investment, and industry is expanding. It is difficult to attribute this entirely to deregulation since coffee prices are good relative to production alternatives. The FAO report says sales of JABLUM, the new coffee export company, rose from 35,000 lbs. in 1982/83 to 96,000 lbs. in 1984/85. The CIB reports that 2 percent of coffee exports were marketed outside the CIB. Marketing efforts have increased. The CIB has begun efforts to expand foreign markets outside of Japan. They have also begun coffee demonstrations in Jamaica to illustrate quality differences as a part of their marketing efforts.

Deregulation (and devaluation) stimulated an increase in fresh citrus exports, according to interviews reported in the FAO/WB report of 1986. Information is not available to assess whether the producer share of the export price has increased. Citrus prices have increased relative to the cost of living, according to the report. The CGA sets prices for fresh and processed fruit.

Cocoa growers have not responded to the opportunity to purchase and export cocoa. The Board is no longer under government interest. However, it is currently the sole purchaser and plays a major role as the marketing agent for small producers. The increase in cocoa production and exports in 1983 and 1984 may be due to long-term rehabilitation projects rather than deregulation. The lack of data on plantings makes it difficult to assess.

In spite of the pricing formula and the devaluation, cocoa is only marginally profitable.

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Export Marketing Boards in Jamaica

banana - Banana Company of Jamaica (BANCO), and the Banana Board, were replaced with Banana Export Company (BECO).

citrus - Citrus Growers Association (CGA) and its subsidiary, Jamaica Citrus Growers Ltd. (JCG), own a processing firm.

cocoa - Cocoa Industry Board (CAIB) and Cocoa Farms Development Co. handle non-marketing activities.

coconut - Coconut Industry Board (CoIB).

coffee - Coffee Industry Board (CID) is responsible for quality control and export licensing, and its subsidiary, Coffee Industry Development Company (CIDCO), handles non-marketing activities.

pimento - Export Division of the Ministry of Agriculture (MOA).

sugar - Sugar Industry Authority (SIA).

tobacco - Tobacco Industry Control Authority (TICA).

Annex Table F.3
Non-Traditional Manufactures: Exports to All Markets 1980-86
By Sector
(US$ millions)

Sector	1980	1981	1982	1983	1984	1985	1986
Food mfg.	15.2	21.1	21.1	21.5	18.5	22.6	23.1
Beverage mfg.	11.1	12.5	13.3	14.2	10.3	10.4	11.5
Tobacco mfg.	10.1	10.3	9.8	12.2	11.0	10.4	9.6
Textile, wearing apparel & leather	9.4	9.9	18.8	15.4	35.2	37.9	54.8
Wood products incl. furniture	1.8	2.8	3.7	3.9	1.7	1.6	2.0

Paper & paper products; printing publishing	1.6	2.6	2.2	3.2	2.4	2.0	1.6
Chemicals & chemicals, petroleum, rubber & plastic prod.	36.3	37.0	43.0	51.4	42.1	49.2	38.2
Basic metal indusries fabricated metal products	12.4	10.9	10.8	13.4	10.2	5.9	5.7
Manufacture & repair of machinery, apparatus & appliances	9.4	9.9	9.5	6.5	3.3	3.3	2.9
All other manufacturing sectors	2.4	2.6	4.0	4.1	2.6	2.5	3.7
GRAND TOTAL	109.6	119.6	136.3	145.7	137.3	145.7	153.0
Total exports to the U.S. market	19.7	19.4	28.9	30.3	51.2	64.9	84.8
Percent of total	18.0	16.2	21.2	20.8	37.3	44.5	55.2

Sources: Statistical Yearbook of Jamaica, various issues, and
Report by McFarlane Consultants (1987)

Annex Table F.4

Value of Selected Traditional Agricultural Exports
(US$ millions)

	1979	1980	1981	1982	1983	1984	1985	1986
Bananas	18	10.5	4.3	4.7	6.8	1.5	4.2	9.1
Cocoa	5.1	2.8	2.1	2.9	4.0	4.0	4.5	5.3
Coffee	3.9	4.6	5.5	7.3	8.1	8.7	7.5	7.0
Citrus (fresh)	0.6	1.8	1.1	1.3	1.1	1.1	1.6	2.0
Pimento	4.0	3.9	4.5	4.6	7.2	6.6	6.8	5.4

Source: The Jamaican Economy, 1985
Economic and Social Survey, Jamaica

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Annex Table F.5
Non-Traditional Exports, 1980-86
(US$ millions)

	1980	1981	1982	1983	1984	1985	1986	% Change 1980-86

Food	13.0	20.4	20.6	26.7	20.1	29.3	30.9	136
Beverage	7.1	24.6	21.7	24.6	20.0	19.6	19.3	172
Crude material	8.5	3.7	4.1	4.6	3.0	3.8	4.8	- 44
Textiles	7.1	7.2	17.3	12.7	32.7	36.7	54.8	677
Other	70.8	67.8	79.6	84.0	63.5	65.5	52.7	- 26
TOTAL Non-traditional	106.5	123.8	143.3	152.1	140.0	154.1	162.4	52
TOTAL Domestic	935.8	966.3	746.6	673.1	687.9	535.1	581.4	- 38

Source: The Jamaican Economy, 1985
Economic and Social Survey, Jamaica, 1986

Annex Table F.6

Manufacturing Output, 1980 & 1985
(J$ millions)

	1980	1985	% Change 1980-85
Food (excl. sugar)	47.4	54.4	14.7
Sugar, molasses, rum	11.7	10.7	- 8.8
Alcoholic beverages	46.9	40.1	-14.6
Non-alcoholic beverages	6.5	5.0	-20.8
Tobacco products	44.6	43.4	- 1.8
Textiles and wearing apparel	10.6	11.9	12.6
Leather & products	1.5	2.8	82.1
Footwear	5.4	4.4	-17.8
Wood & cork products	4.0	4.1	1.3
Furniture & fixtures	4.9	6.8	38.8
Paper products	15.51	15.5	- 0.1
Petroleum refining	19.4	19.2	- 0.1
Chemical products, rubber, plastic	26.8	32.2	20.1
Non-metallic products, metal, machinery, and equipment	7.2	11.5	9.8
Other manufacturing	2.0	2.8	40.1
TOTAL Manufacturing	281.3	296.5	5.4

Source: Statistical Yearbook of Jamaica, 1986

Annex G

Individuals Interviewed

Government of Jamaica
Ministry of Finance
Masie Plummer, Deputy Financial Secretary, Budget Division
Wilfred Pierce, Director, International Loan Monitoring Unit

Bank of Jamaica
Rupert Straw, Deputy Governor, Operations Division
Laban Roomes, Director, Management Department, International Division

Jamaica National Investment Promotion, Ltd.
Mr. Ambroze DaCosta
Mr. Peter Senior
Ms. Marjorie Galloway

Jamaica Industrial Development Corporation
Mr. Warren Woodham
Mr. Pat Wright

National Development Foundation of Jamaica
Blossom O'M Stokes, Executive Director
Barrington Whyte, Operations Manager

Jamaica National Export Corporation
Mr. Peter King

Agricultural Credit Bank
Mr. Charles Evans

Multilateral and International Organizations
International Monetary Fund:
John Hill, Resident Representative
World Bank:
Roger Robinson, Country Economist for Jamaica

USAID
Numerous individuals, including the Mission Director, William H. Joslin; the Deputy Director, Myron Golden; and all Department and Section heads.

U.S. Embassy
Jim Nach, Political Section
Molly O'Neal, Economics Section

Private Sector

Agro-Grace, Ltd.
Dr. Brian Davidson

Jamaica Manufacturers Association
Mr. J. Paul Thomas

Mr. Arlington Morrison
Ms. Velma Sharp

The Gleaner Co.
Mr. Oliver Clark

Jamaica Export Association
Ms. Marcia Bennet
Mr. Karl James

Pan-American Investment Trust Ltd.
Mr. Maurice Facey

Jamaica Banana Producers Association Ltd.
Dr. Marshall Hall
Mr. Frank Pringle

Private Sector Organization of Jamaica
Mr. Delroy Lindsay

Citrus Growers Association
Mr. Ivan Tomlinson

Coffee Industry Board
Mr. Lobert Harley

Agricultural Marketing Corporation
Mr. Avril Tapper
Mr. Dave Roberts

National Commercial Bank
Mrs. M. T. A. Payne
Mr. P. James

Coca Industry Board
Mr. John Tapper

Caribbean Cement
Mr. Compton Rodney

Tropiculture Ltd.
Mr. Laurie Sharp

Jamaica Export Trading Company
Mr. Hernal Hamilton

Jamaica Agricultural Development Foundation
Dr. Keith Roache
Mr. Peter Chin

Jamaica Broilers, Ltd.
Dr. David Wildish

Mr. Yencheu Lee Sang - Customs Broker and Consultant

Mr. Tommy Easterling - AGRO 21

Annex H

Statistical Tables

Appendix Table 1
Jamaica: GDP at Constant Prices by Sector and Fiscal Years

Appendix Table 2
Jamaica: GDP by Final Expenditure, Calendar Years

Appendix Table 3
Jamaica: Balance of Payments, 1980/81 - 86/87
(U.S.$ millions)

{1} Non-traditional exports comprise domestic exports other than bauxite, alumina, sugar and bananas.

{2} Includes arrears in non-reserve liabilities.

Source: IMF

Appendix Table 4 -
Jamaica: Exports, f.o.b.
(U.S.$ millions)

Appendix Table 5
Jamaica: Selected Information on the Bauxite/Alumina Sector, 1970-85

Appendix Table 6
Jamaica: Imports, c.i.f.

Appendix Table 7
Jamaica: Direction of Trade

Appendix Table 8
Jamaica: Central Government Expenditure

Appendix Table 9
Jamaica: Real Total Government Expenditure, 1975/76 - 85/86

(J$ millions, 1979/80 prices)

Jamaica: Central Government Capital Expenditure, 1975/76 - 85/86
(J$ millions, 1979/80 prices)

Jamaica: Central Government Recurrent Expenditure, 1975/76 - 85/86
(J$ millions, 1979/80 prices)

Appendix Table 10
Jamaica: Total Social Services Expenditure Breakdown, 1975/76 - 85/86
(J$ millions, 1979/80 prices)

Jamaica: Government Expenditure on Health Services, 1975/76 - 85/86
(J$ millions, 1979/80 prices)

Appendix Table 11
Jamaica: Bank of Jamaica Losses
(J$ millions)

Appendix Table 12
Jamaica: Operations of Selected Public Enterprises

Appendix Table 13
Jamaica: Summary Operations of the Central Government

Appendix Table 14
Jamaica: Summary of Data on Public Sector Fiscal Balances and Financing

Appendix Table 15
Jamaica: Financing by Major Groups of Creditors
(U.S.$ millions)

Appendix Table 16
Jamaica: Overall Public Sector Borrowing

Appendix Table 17
Jamaica: External Debt

Cocoa Board. At least three citrus firms export fresh fruit. Pimento and coconut were not deregulated.

Non-marketing activities were separated from marketing organizations. Non-marketing activities for the banana industry, such as extension, were transferred to the Ministry of Agriculture, and other functions, such as sprayers, to growers. The non-marketing activities for coffee and cocoa (e.g., extension, improved techniques, credit) were transferred to commodity board subsidiaries.

A price formula, based on world prices minus costs and retentions, was developed to ensure that higher prices from the devaluation were passed on to producers for coffee and cocoa. A new pricing structure was adopted in the banana industry in 1985. Citrus prices are now determined by the Citrus Growers Association (CGA), processing factories, and the fresh fruit market price.

d. Impact

Deregulation of the EMOs was expected to increase the producer's returns relative to the export price, improve the environment for increased investment, and increase production and exports. Data on marketing margins are generally unavailable. However, according to a 1986 World Bank/FAO study, returns to producers have increased for bananas, coffee, and citrus. Although it is too soon to draw definitive conclusions from the export data available, especially since devaluation has also played a role in export increases, growers of these crops appear to be responding well to the improved profit opportunities.

Banana exports increased from a low point of US$1.5 million in 1984 to US$ 9.1 million in 1986, and the number of acres planted more than doubled in that year (see Annex Table F.1). The coffee industry has attracted Japanese and EEC money, and marketing efforts have greatly expanded under the new institutional