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

JAMAICA

PROJECT PAPER

ECONOMIC SUPPORT FY 1989

AID/LAC/P-480

Project Number: 532-0146
Grant Number: 532-K-604

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AID 1120-1 (8-68) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 532-K-604 532-0146
		2. COUNTRY Jamaica
		3. CATEGORY Cash Transfer
		4. DATE December 21, 1988
5. TO A/AA/LAC, Frederick W. Schieck		6. OYB CHANGE NO.
		8. OYB INCREASE
7. FROM LAC/DR, ~~Terrence J. Brown~~		TO BE TAKEN FROM: Economic Support Funds
9. APPROVAL REQUESTED FOR COMMITMENT OF $ 12,100,000		10. APPROPRIATION - ALLOTMENT LES9 89 35532 kg31 .970-65 532-00-50-91
11. TYPE FUNDING: LOAN [X] GRANT	12. LOCAL CURRENCY ARRANGEMENT: [X] INFORMAL [ ] FORMAL [ ] NONE	13. ESTIMATED DELIVERY PERIOD FY 89 / 14. TRANSACTION ELIGIBILITY DATE

15. COMMODITIES FINANCED

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only		U.S.	12,100,000
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash	12,100,000	Other	

18. SUMMARY DESCRIPTION

The purpose of the $12,100,000 grant is to provide immediate balance of payments assistance to facilitate recovery from the damages inflicted by Hurricane Gilbert and support to the Government of Jamaica to continue the implementation of its economic recovery/stabilization program.

As a covenant to the ESF cash transfer, the GOJ will agree to continue to maintain a stabilization and structural reform program. As a CP to the first disbursement, the GOJ will provide a letter acceptable to A.I.D., outlining the quarterly macro-economic and structural reform guidelines that the GOJ has set out to achieve. The general areas for which specific guidelines will be developed include privatization of its hotel assets, adoption of a general consumption tax, a reduction of the tariff and stamp duty rates, reduction of monopoly importer status of JCTC, initiation of actions to broaden capital markets and quarterly targets for control of the public sector deficit.

The proposed ESF funds will be deposited in a separate account by the GOJ and will be used to service debt. The GOJ will also deposit an equivalent amount of Jamaician dollars in a special account locally for use as general budgetary support.

As a CP to the obligation of the 2nd tranche ($12,100,000) the GOJ will demonstrate that guidelines established for the program are being met or it is taking actions to redress shortfalls.

(Cont.)

19. CLEARANCES		DATE
LAC/GC	T. Geiger (draft)	12/23/88
LAC/DP	W. Wheeler WW	1-24-89
PPC/EA	J. LaPittus (draft)	01/10/89
PPC/PB	D. Adams (draft)	01/10/89
ARA/ECP	M. Goldberg (draft)	01/13/89
LAC/DR	J. Evans	1/18/89
PM/FM/C	M. Usnick	1/19/89

20. ACTION

[X] APPROVED [ ] DISAPPROVED

William B. Wheeler 1/24/89

AUTHORIZED SIGNATURE — DATE

Acting Assistant Administrator, LAC

TITLE

CLASSIFICATION

U.S. dollar disbursements will be made into an interest bearing separate account of the GOJ at Irving Trust Company in New York. This account was established specifically for this purpose. No other funds will be commingled in the account. Pursuant to A.I.D. guidance the Grant Agreement will require the GOJ to use the funds and any accrued interest for debt service payments. Servicing of debt owed to the U.S. Government (exclusive of FMS debt) shall have first priority. A second priority will be to use the ESF funds to service debt owed by the GOJ to multilateral development banks and the IMF.

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PAAD Facesheet

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PROGRAM ASSISTANCE APPROVAL DOCUMENT

USAID/JAMAICA FY 1989

I. INTRODUCTION AND SUMMARY

This PAAD proposes an ESF grant for Jamaica of US$24.2 million in US Fiscal Year 1989, with a targeted signing date in December 1988. Given the economic and financial exigencies created by the devastating Hurricane Gilbert, and the need for quick response from a variety of funding sources, this PAAD has been developed expeditiously and without the intermediate step of a concepts paper. However, the policy dialogue proposed herein has been developed in close coordination with AID/W, including periodic policy updates throughout 1988. Moreover, our proposed approach to the dialogue for this PAAD maintains the tenor and traditions of both the policy substance and negotiating style of the past several years which have proven to be successful.

A. The Economic Impact of Hurricane Gilbert

On September 12, 1988, a hurricane of unprecedented intensity engulfed the entire island of Jamaica, leaving in its wake material damage currently estimated at US$1 to $1.5 billion. The disruption of production, especially in the agricultural and tourism sectors, and the associated loss of foreign exchange earnings has necessitated an emergency program to repair and rebuild the economic and social infrastructure and return the economy to a sustainable growth path.

While the arrival of a hurricane is never opportune, Gilbert's timing was particularly bad. Before Gilbert, the economy was on target for another year of real growth of close to five percent, based upon anticipated levels of exports, imports, and capital account inflows, primarily from donors and multilateral creditors. Despite these generally favorable developments, Jamaica was experiencing a foreign exchange crunch well before the hurricane hit, with gross liquid assets of the Bank of Jamaica projected to fall to US$7 million in September. Outflows, including debt payments, were bunched up at the beginning of the fiscal year which began April 1, while the bulk of inflows, including tourism, was scheduled to arrive later in the fiscal year. The hurricane significantly compounded this foreign exchange crunch, causing an estimated drain of foreign exchange of nearly US$800 million for the remainder of the fiscal year. In terms of the national accounts, Gilbert will knock off one to two points, putting GDP growth at about three and one-half percent for the year. The fall-off would be much greater were it not for the massive reconstruction program. Losses to capital assets are in excess of US$1 billion dollars, perhaps as much as US$1.5 billion dollars. Approximately half of that total (US$600 million) should be recovered from re-insurance inflows. Much of the uninsured capital assets were residential dwellings owned by the poor, but many commercial enterprises were also under or uninsured.

When the hurricane hit, the economy had been going through an impressive program of recovery since the early to mid 1980's. This had reversed the policy direction toward a closed economy set in the mid 1960's and the decline and dislocations of the 1970's. The economy was on a promising if not yet completely solid footing for the 1990's. The recovery is the direct result of substantial structural adjustment and policy reforms carried out by the GOJ in the mid 1980's. The overall public sector deficit had been reduced from about 15 percent of GDP in JFY 1980/81 to 5.4 percent in JFY 1987/88. A comprehensive program of tax reform has reduced personal and corporate income tax rates, which increased incentives for individual initiative and productive investment. A significant privatization program has turned over assets to the private sector while stimulating capital markets. A major financial reform has been undertaken to increase the mobilization of financial savings and to improve the efficiency of financial intermediation. The exchange rate has become more competitively determined, and access to foreign exchange substantially liberalized, especially for smaller users. Trade restrictions have been reduced, and the import substitution regime has been slowly dismantled and is being replaced by a regime of relatively low tariffs.

As a result of the structural adjustment and stabilization programs, and of favorable movements in international prices, the economy has recently done quite well. During the last two years, GDP has grown at around five percent per annum in real terms. Non-traditional manufactured exports to the U.S. have increased over ten fold during the period 1980-1987. Inflation is under control, and unemployment, although still high, has been reduced from about 27 percent in 1980 to 21 percent in 1988.

The basic challenge posed by Gilbert is to keep the economy moving ahead while maintaining the reform program, especially in light of the short term fiscal and monetary pressures that will be exerted on the economy.

B. Strategy for Policy Dialogue

The successful completion of the privatization of Telecommunications of Jamaica by share offer, (which in fact was oversubscribed) only one week after Hurricane Gilbert, is a good indication that the GOJ will continue its agenda of policy reform.

The recent GAO report, "Foreign Aid: Improving the Impact and Control of Economic Support Funds - June 1988", noted that, "Program documents authorizing cash transfers to Senegal, Jamaica, and El Salvador specified policy reform objectives in clear direct statements. These documents spelled out a means of measuring progress and the anticipated impact of the reforms on the economic development of the country," and in the list of reforms on page 26-27 cited Jamaica as a successful example in virtually every instance. See Annex G.

The excellent results obtained to date have encouraged the Mission to continue with this proven approach. The government has almost invariably taken actions that go beyond pledges of future measures that would have been acceptable in more formal, but less amicable negotiations. The ongoing discussions with the GOJ on its policy program for this PAAD seek to sustain the momentum of the structural adjustment and stabilization program. These discussions are buttressed by the fact that Jamaica has successfully completed one IMF program and signed a new 14 month Agreement in September 1988.

The policy measures envisioned for this PAAD are in the areas of building upon past achievements in privatization, tax reform, trade and tariff reform, reduction of monopoly importer status for Jamaica Commodity Trading Corporation (JCTC) and resulting price distortions, capital market development, and control of the overall public sector deficit.

More specifically, policy dialogue will begin by recognizing the privatization of Telecommunications of Jamaica by share offer. This privatization featured the first underwriting of a share offer in Jamaica's history, and is another milestone in privatization and capital market development. Second, we expect the GOJ to enact the General Consumption Tax in April 1989. Third, we expect the GOJ to continue with the next phase of its Tariff Reform program, and to investigate the possibilities for speeding up the reform process in light of the expected large levels of imports after Gilbert. Fourth, we will press for the reduction of JCTC's import control for certain items, and identification of the size and nature of their cross-subsidies. Fifth, we propose to assist the GOJ in its efforts to encourage further capital market development through studies of the possibility of a regional stock exchange, emerging market funds, and the listing of GOJ debt securities on the Stock Exchange. And finally, we propose to continue to impress upon the government the need to contain the level of the public sector deficit this fiscal year and return next fiscal year to the declining deficit path that was planned before the hurricane.

In summary, the recommendation for ESF at the proposed level of US$24.2 million is based upon the need to rebuild the asset base of the country, help bolster the country's foreign exchange flows during the remainder of the fiscal year in the face of declining exports and rising imports, and help Jamaica stay on its present course of structural adjustment and policy reform. Moreover, the proposed ESF funds will provide further encouragement to Jamaica's narcotic eradication/interdiction program which continues to move forward in close cooperation with the U.S. Government. Recently Jamaica signed an agreement to participate in a bilateral narcotics control program and has agreed to the provisions of the Chiles Amendment on narcotics control. These, and other actions, give strong evidence of Jamaica's commitment to vigorous anti-narcotics efforts.

II. STRUCTURAL ADJUSTMENT IN THE 1980s

A. The Recovery Program

The present government, the Jamaican Labor Party (JLP), under Edward Seaga, was elected to power in a landslide in October 1980, and reelected in late 1983. The economic woes facing Jamaica in 1980 included high levels of public sector expenditures and employment, large public sector deficits, and very high rates of inflation and private sector unemployment. Also since the mid 1960's Jamaica had had an increasingly counterproductive policy favouring import substitutions, self-sufficiency, and regional trade, and which also quite effectively discouraged non-traditional exports to hard currency markets. In other words Jamaica since the mid 1960's had been an inward looking protectionist economy, largely financed by revenues from an extractive industry (bauxite) and borrowed funds.

The economic policies initiated during the 1980's, and supported by the IMF, World Bank, AID and other bilateral donors, called for a comprehensive program of stabilization and adjustment that included:

--Reduce the public sector deficit, which had grown to 15 percent of GDP at the end of the 1970's.

--Correct serious balance of payments disequilibria, in part by cutting the budget deficits, adopting a more realistic exchange rate, eliminating disincentives to export, and diversifying the export base.

--Separate monetary and fiscal policy. During the course of the 1970s, monetary policy had become subordinate to fiscal policy in order to finance the deficits.

--Reform trade and industry, primarily by reducing tariffs and eliminating quantitative restrictions and import licensing.

--Privatize government provided services and owned assets, and deregulate other areas, such as the commodity boards and items subject to price controls.

--Reform the tax system, which was economically inefficient and administratively cumbersome.

B. Policy Accomplishments

In the first two years, the new government managed to reverse the decline in GDP, and attracted substantial inflows of foreign public capital. However, the program of structural adjustment was delayed by overoptimistic projections of recovery and by the collapse of world market demand for bauxite and alumina, which took its toll over the period 1982-1985. Nonetheless, during this time the foundations were laid for what eventually emerged as a significant program of adjustment.

To its credit, the GOJ implemented and held to these measures during the difficult 1983-1986 period until the losses from mineral exports could be met through increased tourism, gains in non-traditional exports, and some welcome relief in the form of falling oil prices and interest rates.

While the pace and substance of these measures have not always been ideal, the cumulative impact over the last seven years is a significant structural adjustment program that may be compared favorably with virtually any other developing country.

It is vital to understand the policy achievements of Jamaica in order to appreciate the potential danger to this program posed by Hurricane Gilbert, as well as by popular impatience for an even faster payoff from the painful adjustments. The policy achievements have been described at length in last year's PAAD and previous USAID/Kingston documents, as well as those of the World Bank and the IMF, and have been favorably reviewed by AID evaluation teams. For the reader's convenience, the most important achievements of the GOJ's structural adjustment program are summarized in Annex A.

III. THE ECONOMIC AND POLITICAL SETTING

A. Recent Economic Developments

Economic performance was very encouraging in Jamaican FY 1987/88 (i.e. through March 31, 1988.) It concluded with the successful completion of all performance criteria under the IMF program. Growth of GDP is estimated to have accelerated to 5.5 percent from about 4 percent in 1986/87. This growth was led by a strong expansion in bauxite/alumina exports, nontraditional exports, tourism and construction. The average rate of inflation as measured by the consumer price index fell to less than 7 percent. The unemployment rate had declined to about 21 percent, and the job-seeking rate had fallen to about 9 percent, the lowest levels in many years. The overall public sector deficit declined to 5.4 percent of GDP.

Private sector credit demand, in line with the improved economic prospects, accelerated to an annual rate of almost 35 percent in 1987/88, compared with 21 percent in 1986/87. In the face of strong credit demands the Bank of Jamaica refrained from acting to reduce interest rates even though the rate of inflation had been on a declining trend.

The Bank of Jamaica's net international reserves rose by US$189 million during 1987/88 compared with a US$55 million gain the previous year. More than half of that improvement took the form of net repurchases to the IMF. The improvement in the overall balance of payments reflected a strengthening of the capital account, while the current account deficit rose. This widening of the current account deficit in 1987/88 was mainly caused by an expansion of imports of about 25 percent. The growth of imports of capital goods (49 percent) and raw materials (29 percent) was related to a strong expansion of investment and restocking of inventories.

Economic Prospects before Hurricane Gilbert. Jamaica's economic program for JFY 1988/89 was predicated upon continuing it recent successes with export-led growth and reducing its reliance on foreign borrowing. GDP was projected to grow by 4.7 percent, and inflation was projected to remain at about 7 percent. The fiscal program aimed at reducing the overall public sector deficit from 5.4 percent of GDP in 1987/88 to 2.8 percent of GDP in 1988/89.

The monetary program for 1988/89 envisaged an expansion of broad money of about 17 percent, compared with 21 percent the previous year. As credit growth accelerated in April-June 1988, the authorities decided to modify open market procedures to strengthen control over credit. On August 9, 1988, the Bank of Jamaica announced that it would discontinue the policy of offering certificates of deposit at periodic auctions at a pre-set interest rate, with the amount sold being determined by demand at that rate. Instead, the BOJ will offer pre-set amounts of its own CDs or GOJ treasury bills with interest set by the bidding.

The deficit in the external current account was projected to decline to about 3 percent of GDP from about 4.5 percent of GDP last year. Net capital inflows were projected at US$283 million. Rescheduling were expected to provide debt relief to Jamaica of about US$165 million. Of this amount, US$70 million corresponds to commercial bank loans, and US$20 million to Venezuela and Mexico. Paris Club creditors were expected to provide debt relief to Jamaica of about US$61 million during 1988/89. Net official international reserves were targeted to improve by US$180 million in 1988/89.

In spite of the generally favorable developments during the summer months of 1988, and just before Hurricane Gilbert, Jamaica was experiencing a crunch in its foreign exchange flows. Gross liquid assets of the Bank of Jamaica were projected to fall to US$7 million in September from US$43 million in March. Symptoms of the crunch included temporary arrears in debts owed, reported increases in the parallel rate for foreign exchange, and difficulties in obtaining foreign exchange through regular channels. The basic reason for this crunch was the timing of foreign exchange flows. Outflows--including scheduled repayments to the IMF of about US$57 million in July--were bunched up at the beginning of the fiscal year, while the bulk of foreign financing was scheduled to arrive later in the fiscal year. June and July were particularly difficult months, with seasonally low tourism receipts compounding the July IMF repurchase. The drought in the United States added at least US$5 million to Jamaica's food import bill by driving up prices or by reducing the availability of concessional commodities.

The foreign exchange picture brightened somewhat in August with an increase in tourism receipts from Reggae Sunsplash and the forward sale of AT&T settlement payments to Japanese investors. Before the Hurricane, Jamaica had expected foreign exchange flows to be somewhat tighter in September and October, as tourism receipts dipped again to seasonally lower levels. During the period from November to March, the high season for tourism, tourism exchange inflows were expected to pick up again.

B. The Economy After Gilbert

On September 12, Hurricane Gilbert dramatically changed the economic setting. The economy, as the previous section indicates, had shown a strong performance, and, after weathering the worst of a foreign exchange crunch related primarily to the seasonality of its foreign exchange inflows, was looking towards its high season of greater international liquidity. Gilbert has perpetuated the crunch by causing immediate demands for foreign exchange. Although pledges of assistance have been made by donors, and reinsurance inflows should cover some of the damage, the timing and actual level of inflows is uncertain.

The primary economic impacts of Hurricane Gilbert can be divided into (1) losses of foreign exchange and current income for the remainder of the Jamaican fiscal year (i.e. to 3/31/89) and (2) losses to Jamaica's stock of capital assets.

Losses of Foreign Exchange and Current Income. Foreign exchange losses are estimated to be nearly US$800 million as a result of reduced exports and tourism and additional imports through this fiscal year which ends March 31, 1989. These losses, derived from data from a variety of sources including the Bank of Jamaica, Planning Institute of Jamaica and the IMF/World Bank joint mission to Jamaica to assess the need for emergency assistance, are estimated to include the following:

	Millions of US Dollars
Tourism	162
Bauxite and Alumina Exports	30
Traditional Agriculture Exports	39
Nontraditional Exports	75
Additional Imports	465
TOTAL	771

The reinsurance inflows will offset about half of these losses during this fiscal year. Even with the expected increase of foreign assistance, the economy will experience a net loss of up to US$100 million of foreign exchange compared to pre-hurricane projections.

The impact on GDP is more difficult to evaluate, but it is less severe than indicated by the foreign trade sector losses. In terms of primary output, agriculture suffered the greatest loss. Damage in excess of 90 percent was reported in the sub-sectors of poultry, bananas, pimento and miscellaneous tree crops. In addition, damage in excess of 60 percent was reported in the sub-sectors of coffee, cocoa, coconuts and most vegetable crops. Manufacturing losses in a large part due to the loss of electricity for some six weeks, are estimated to be about 10 percent of annual production. Economically the most important loss will come from a projected 25 percent decline in tourism expenditures. The overall impact in terms of GDP is estimated to be above 5 percent during the current Jamaica fiscal year ending March 31, 1989. However, a massive program of reconstruction equivalent to nearly 4 percent of GDP will reduce the net impact to about one and one-half percent of GDP; real growth in GDP will be reduced from the projected level of 4.7 percent to 3.3 percent. JFY 1988/89 per capita GDP growth is projected to decline from the 3.5 percent as projected in August to 2.1 percent. (See Table I-1).

Losses to Stock of Capital Assets. The second type of economic loss occasioned by Gilbert is the damage to capital assets. These losses will be felt not only during the remainder of the current fiscal year but also over the coming years as resources which would have gone into other forms of development, and produced a corresponding stream of economic benefits, must instead be diverted to restore the status quo of Jamaica's stock of capital assets.

The primary damage seems to be to residential dwellings, with an estimated 150,000 housing units affected in one way or another, 50,000 severely affected and 10,000 destroyed. The damage visited upon plant and equipment by Gilbert has been uneven. In general most industrial concerns escaped with only minor damage. However, the poultry industry sustained capital damages estimated in the range of US$50-60 million, and the banana industry, in addition to loss of all output for 9 months, sustained capital damages in the range of US$10-15 million. Other industries sustaining serious capital damages were the Jamaica Public Services Company, which supplies Jamaica with electricity. While its generating capacity has not been damaged, it is faced with a national grid of downed utility poles, damaged transformers and severed and twisted lines. This in turn has caused serious disruptions to water distribution, hospital services, and manufacturing production.

The country's social infrastructure, primarily schools, hospitals and medical centers, suffered extensive damage as a result of the hurricane. Current estimates are that a half of these facilities lost all or part of their roofs. Clearly, undertaking these critical repairs would place Jamaica's foreign exchange availability in an untenable position if additional resources are not forthcoming.

The Jamaican insurance sector estimates that the insured damage will amount to about $600 million. However, this figure also includes consumer goods which, while resulting in a loss of welfare, will not affect the nation's productive capacity. Fortunately, most of these liabilities will be covered through reinsurance arrangements with foreign insurance companies, resulting in a large inflow of foreign capital to take care of these losses. However, at the same time, much of the damage caused by the hurricane to commercial enterprises has been under-insured or uninsured.

Jamaica was also successful in attracting substantial concessional assistance at the recent donors meeting in Berlin, possibly amounting to around US$420 million in reallocations and new commitments. The critical question will be the time needed to translate these pledges into actual resource flows.

C. Balance of Payments, Fiscal, and Monetary Impact

The hurricane has caused a major deterioration in the balance of payments in JFY 1988/89 (see Table II-1). The loss of exports and the increase of imports produced a US$610 million deterioration in the trade balance compared with the pre-hurricane projection. The decline in tourism compounds the problem. Reinsurance inflows of some US$464 million this fiscal year, a US$162 million increase in transfers, including A.I.D. DA and PL480 additional funding, and the 100 percent interest that was recently rescheduled by the Paris Club limit the current account deterioration to about US$131 million. Increased official capital inflows of US$220 million are projected, since at least one-fourth of the new donor commitments are not expected to disburse until 1989/90. Debt rescheduling, including the recent Paris Club, is the same as earlier projected, US$165 million. Direct investment falls US$24 million as resort divestments become infeasible. Other private capital flows decline by US$35 million. The net effect of these changes is that the overall balance of payments surplus fall from US$180 million that was targetted before the hurricane to US$88 million. Compared to the BOP surplus target set by the recently approved Stand-by, there is a foreign financing gap of US$92 million in JFY 1988/89. It is expected that up to US$50 million will provided by emergency assistance from the IMF. Any remaining gap should be filled by ESF and other donor emergency assistance not yet identified.

The balance of payments are not expected to improve dramatically in JFY 1989/90 and 1990/91. Imports remain high in 1989/90 as reconstruction continues. While imports decline somewhat in 1990/91, they are higher than earlier projected because of the large increases in nominal GDP and prices in 1988/89 and 1989/90. Exports and tourism are projected to recover in 1989/90 and continue on the growth path projected earlier. However, the precipitous decline in official grants and capital swamp the export and tourism growth. As a result, the overall balance of payments remains well below targetted surpluses, and deteriorates into a deficit in 1990/91.

The fiscal impacts of the hurricane in JFY 1988/89 are also serious (see Table III-1). Revenue falls from the pre-hurricane expected level of 31.2 percent of GDP to 30.8 percent as hurricane losses reduce income tax revenues. Divestment revenues also fall as resort divestments must be postponed. The large increase in grants, from 1.7 percent of GDP to 5.2 percent, is insufficient to offset the sharp increases in current and capital spending. As a consequence, the central government surplus of 0.4 percent of GDP expected before the hurricane is wiped-out and replaced by a 5.8 percent deficit. Reduced public enterprise surpluses and increased Bank of Jamaica losses add to the problem. The consolidated public sector deficit consequently increases from the pre-hurricane budgetted level of 2.8 percent of GDP to 11.5 percent for the GOJ fiscal year ending March 31, 1989.

The strain on the government's budget will doubtless be high as it strives to rehabilitate damaged infrastructure and housing and deal with the increased need for income transfers to the poor. Clearly, however, it would not be in Jamaica's long-run interests if its understandable short-run desire to address the critical needs of the population were to be accompanied by the reemergence of sustained, structural claims by the public sector on the nation's resources. One of the GOJ's most important achievements is reducing the overall public sector deficit. A reemergence of large deficits would undermine much of the policy achievements of the 1980s. If this happened, it would represent the real and lasting damage wrought by Gilbert.

It is expected that the GOJ, with the strong encouragement of the IMF, World Bank, USAID and other major donors, will significantly reduce the deficit after this fiscal year. However, the fall-off of donor grants will make this a difficult task. Assuming significant declines in current and capital expenditures, the consolidated public sector deficit is projected to decline to 3.9 percent of GDP in 1989/90 and 0.8 percent in 1990/91.

While foreign financing will cover a major portion of the deficit increases, domestic financing of the deficit will need to increase from the pre-hurricane expected level for 1988/89 of 2.7 percent of GDP to 9.2 percent. The need for domestic financing declines to around 6 percent in 1989/90 and 3 percent in 1990/91. While much of domestic financing will come from outside th banking system through the sale of Treasury bills and Bank of Jamaica Certificate of Deposit to the public, the deterioration of the public sector finances could trigger significant expansions of banking system credit and the money supply.

Net domestic assets of the banking system (mainly credit to the public and private sectors) was earlier expected to expand by less than 3 percent in 1988/89. It is now expected to grow by 12 percent this fiscal year, 6 percent in 1989/90 and 8 percent in 1990/91 (see Table IV-1). Credit expansion to the private sector will increase by around 25 percent a year over through 1990/91, slightly faster than earlier expected. The broad money supply, including money and quasi-money, was expected to increase 17 percent in 1988/89. It is now projected to increase by some 20 percent in 1988/89, 17.3 percent in 1989/90, and 16.9 percent in 1990/91. The monetary expansion and the commodity supply shortages will cause consumer prices to increase around 11 percent in 1988/89 and 8 percent in 1989/90. The targetted level of inflation of 7 percent should be achieved by 1990/91 if projected fiscal and monetary restraint are achieved.

D. Political Setting and Structural Adjustment

Although the exact date still remains unannounced, elections in Jamaica must be held within a few months (April 10, 1989, at the latest). The opposition party, the People's National Party (PNP) has signed a Code of Political Conduct Agreement with the ruling party, the Jamaica Labour Party (JLP) and an Ombudsman has been appointed to monitor performance and receive official complaints. Despite the added potential friction between the two parties as a result of hurrican disaster relief and rehabilitation policies, only one official complaint had been registered as of mid-November.

This level of cooperation between the two parties has enhanced the prospects for a generally peaceful election and a relatively smooth continuation of Government policies and operations, whatever the results of the election. The PNP, like the JLP, has endorsed structural adjustment of the economy and recognized the need to foster market-oriented decision making and encourage exports. The Mission expects that the GOJ will continue to support structural reforms, including actions on the policy reform agenda laid out in this paper, under the leadership of either party.

IV. THE ROLE OF ESF IN FY 1989

The rationale for the US FY 1989 ESF, like that of other funds used to help Jamaica in its time of need, rests on the importance of surmounting the short-run loss of real resources -- primarily in current national income -- to the Jamaican economy, and rebuilding the stock of productive assets, so that the program of structural adjustment can continue on course. This requires that foreign disaster assistance of all types continue to be mobilized quickly to help the GOJ address the short-term critical needs of its people, and set the economy on its former footing.

A. ESF in FY 1988

The lack of availability of ESF for Jamaica for FY 1988 was unfortunate in that it resulted in a missed opportunity for the United States to play a key role in helping Jamaica to consolidate and defend the structural adjustments program outlined above. The GOJ for its part has shown extremely good faith in responding to our policy dialogue agenda of last year, even though no ESF was forthcoming.

This response was for several important reasons. The first lies in the nature of the relationship between the GOJ and USAID/Kingston. The relationship is excellent, based upon our perception of the GOJ's commitment to structural adjustment, and the GOJ's perception that the U.S. Mission is a willing and able bilateral donor with an understanding of and full respect for the country's sovereignty and political and social constraints. The government, though disappointed that no ESF was available, understood that the Mission had made every possible effort to secure ESF funds. The government continued with the reforms that operationally remained feasible given the tighter resource constraints.

Second, the GOJ has followed its structural adjustment program because it believes the policies are ultimately in the best long run interest of the country, even though this may not necessarily be in the government's short run interests. Because the GOJ is convinced of the merits of the agenda, the challenge has been to maximize the number of tangible reforms that are implemented; thus the USAID focus on GOJ performance of a continuing and diverse set of steps forward, by searching for and proposing a range of practical reforms that may be implementable, and rewarding success. ESF has been viewed as a means to help the country bear the short term costs of making the necessary adjustments, not as quid pro quo for unpalatable reforms alien to the national agenda.

Accomplishments since the FY 1988 ESF PAAD

Since the policy dialogue which took place between the GOJ and USAID in the development of the December 1987 PAAD, the GOJ has undertaken the following actions:

(1) Reduction of the burden of double taxation on dividends. Jamaica now provides a tax credit to companies expanding their equity base by issuing bonus shares instead of dividends. The tax credit is equivalent to one-fourth the notional tax on the value of the bonus shares.

(2) Completion of at least two major debt-equity swap transactions by early March 1988. The GOJ completed two major debt-equity swaps in January. Overall, external debt converted in 1987/88 amounted to about J$14 million, and conversions were scheduled (before Gilbert) to increase to about J$176 million in 1988/89. The pace of conversions has been set to avoid straining the capacity of the domestic market to absorb debt instruments.

(3) Speeding up of the divestment of smaller enterprises. During the last 10 months the GOJ has increased the number of enterprises effectively privatized by the Divestment Secretariat from 10 to 16. It has also added three new enterprises to the Divestment Secretariat's portfolio.

(4) Privatization of Telecommunications of Jamaica. The actual privatization, described elsewhere, went far beyond that envisioned at the time of last year's PAAD and included the underwriting of a share offer for the first time. GOJ sold 15 percent of this giant state owned enterprise locally in underwritten share offer, thereby reducing its ownership to a minority position of 40 percent, and taking TOJ off public enterprise lists.

(5) Strengthening of capital market institutions. The GOJ has issued two new local debt instruments to broaden the capital market. The GOJ is considering a number of ways to assist the Stock Exchange to become a more dynamic vehicle in the financial sector, including portfolio investment in equities by foreigners and the use of debt-equity swaps to facilitate such purchases. The GOJ has also taken measures to safeguard investor's interest by reducing extent of insider trading, and thereby increase investor confidence.

In August 1988 the Bank of Jamaica announced that it would discontinue the policy of offering certificates of deposit at periodic auctions at a pre-set interest rate. Since then, the BOJ has been offering pre-set amounts of its own CDs or the Governments' treasury bills, with interest rates resulting from the bidding. (The quantities offered are those deemed necessary to maintain the net domestic assets of the Bank of Jamaica within the established limits.) In August, the GOJ also announced the reduction in the Government determined savings rate from 15 percent to 13 percent. The largest bank subsequently reduced lending rates by 1.5 percent.

(6) Development of a timetable for the implementation of the General Consumption Tax (GCT). The GOJ has developed a timetable which calls for implementation of the GCT in April 1989, i.e., after elections. The GOJ is taking necessary steps now to prepare for the GCT.

(7) Continuation of progress in liberalizing exchange controls. In August 1988 the basic allowance for foreign travel (other than for business and professional reasons) was raised from US$150 to US$300 per person and calendar year. Also, the annual limit per person on remittances of income from emigrants' property and remittances for family maintenance was raised from US$1,000 to US$2,000, and that for cash gifts was raised for US$50 to US$100.

<u>The New IMF Program</u>. The GOJ continued its commitment to economic stabilization with a New IMF stand-by agreement. The new agreement covers the period September 1988 to November 1989 and provide SDRs 82 million (US$114 million.) The stabilization measures include:

--Reduction in the overall public sector deficit from 5.4 percent of GDP in FY 1987/88 to 2.8 percent of GDP in FY 1988/89

--Reduction in the current account deficit from 4.5 percent of GDP in FY 1987/88 to 3.1 percent in FY 1988/89

--Continuation of the 10 percent wage guideline through November 1989

--Continued price stability with inflation forecast at 7 percent in FY 1988/89

--Improvement in the BOJ's net international reserves by US$180 million, of which US$145 million will be through IMF repurchases.

The same exchange rate adjustment triggers, described above, will continue in place. These measures were agreed to before Hurricane Gilbert. Discussions on the appropriate adjustments to the program in the aftermath of Hurricane Gilbert are taking place at present.

B. Policy Directions for FY 1989 ESF

The ongoing discussions with the GOJ on its policy program for this PAAD seek to sustain the momentum of the structural adjustment and stabilization program. The policy measures envisioned for this PAAD are in the areas of building upon past achievements in privatization, tax reform, trade and tariff reform, reduction of monopoly importation by JCTC, capital market development and control of the overall public sector deficit. These discussions are buttressed by the fact that Jamaica has successfully completed one IMF program and signed a new 14 month Agreement in September 1988. In order to understand how these measures build upon Jamaica's impressive track record of structural adjustment and policy reform, the reader's attention is again drawn to Annex A.

(1) Privatization. At the beginning of the year, the GOJ indicated an interest in privatizing Telecommunications of Jamaica, but the outlook was not particularly promising. First, for most of the year, a cloud was hanging over the international equities markets after the October 1987 stock market crash. Second, the Jamaican Stock Exchange had also experience a decline, in part a reflection of the international uncertainty facing equities, and also because the exchange was facing an inevitable cooling off after the bull market that began in 1983.

The GOJ was able to overcome the softness of the market by boldly offering the shares at a price that Jamaica's newly created class of share owners would find attractive, even though this meant sacrificing revenue.

The share offer of TOJ was underwritten by 14 financial institutions, the first such underwriting in Jamaica. The decision to sign the underwriting agreement, and provide an element of stability in what might be an uncertain environment, was criticized when announced in August. But it turned out to be remarkably prescient. Hurricane Gilbert struck on September 12, a mere nine days before the share offer was opened to the public for application. The public offer for sale represented about 13 percent of the total outstanding shares of TOJ. Of the 126 million shares, 105 million were offered to the public and underwritten by the syndicate of underwriters. The remaining 21 million shares were reserved for employees under an employee share scheme.

The shares available to the public were oversubscribed by almost 25 percent. Before the share offer, the GOJ owned just over 53 percent of TOJ, the British firm Cable and Wireless 39 percent, and various private sector interests the residual 8 percent. Following the share offer, the GOJ now owns 40 percent, Cable and Wireless 39 percent, the employees of TOJ 2 percent, and other private sector, 19 percent.

With the success of the share offer, and the passing of majority ownership to the private sector, TOJ will be able to proceed with its investment program to respond to the considerable--and largely unmet--demand for telecommunications services, free from the GOJ budget constraints and public sector spending limits.

The specific policy item that the Mission expected was the listing by the GOJ of these shares on the Stock Exchange and the commencement of their free trading by October at the latest. In fact, this has now been accomplished. The intent of this policy item is primarily to acknowledge a skillfully planned and managed privatization, made all the more remarkable coming as it did in the aftermath of Hurricane Gilbert.

(2) Tax Reform. The GCT, the last major element of the GOJ's comprehensive tax reform program, is scheduled for legislative enactment into law effective April 1, 1989. The GCT, a value-added type of tax, is intended to replace the existing system of indirect taxation, which had grown up over the years in haphazard fashion in response to the pressing revenue needs of the day. USAID/J's Board of Revenue Assistance Project has provided significant technical support to this part of the tax reform effort. The design work for the GCT is completed, and initial implementation efforts in anticipation of legislative enactment are virtually completed. But the decision to actually proceed is a major one requiring considerable courage.

(3) Trade and Tariff Reform. The tariff reform program includes the simplification of the duty system and its administration. The program consist of a 4 year program to reduce the dispersion of nominal import tariff and stamp duty rates, ranging from zero to over 200 percent, by eliminating tariff peaks and introducing a minimum tariff for items presently with a statutory zero CET and stamp duty.

In March 1987, the GOJ introduced a maximum total CET and stamp duty rate of 68 percent, reducing maximum rates that in some cases reached 200 percent. This maximum rate was further reduced, as planned, to 60 percent in March 1988. The ultimate goal includes a final set of four tariff rates to be achieved by March 1991: 10 percent for raw materials, 20 percent for capital goods and 30 percent for consumer goods. Items imported by public utility companies would pay a reduced duty rate of 5 percent. However, an intervening problem is that the GOJ must renegotiate the existing Common External Tariff with its Caribbean Common Market partners in line with the tariff reform goals before it can fully implement the program.

The GOJ is considering the possibility of advancing the pace of the tariff reform. The basic rationale for this lies in the level of imports required to restore the pre-hurricane status quo. It is estimated that almost US$500 million in re-insurance funds could arrive on the island during the next 6 months as claims for damaged assets and goods are paid off. Of this sum, its can be safely estimated that at least a half will go to imports to replace these assets and goods. Furthermore, an additional US$250 million from donors could be forthcoming to assist in the rebuilding effort.

Many of the new imports will go to replace damaged assets. Thus, an imposition of the old rates would amount in some sense to double taxation. Fairness suggests that imports for replacement would be tax free. However, it would be administratively cumbersome if not impossible to distinguish regular imports that would have taken place anyway from those that are in response to Gilbert. Thus, the imposition of tariffs at rates close to those envisioned in the final phase would seem to be the best middle ground. Failure to do so in a systematic fashion in line with the ultimate rates of the tariff reform program will no doubt generate pressure for ad hoc reductions and exemptions which could further complicate the tariff structure which the reform program is attempting to make more simple and administratively streamlined.

There are two key issues surrounding the proposal to advance the schedule for tariff reform.

CARICOM and the CET. While the first two phases of the tariff reform could be accommodated under the Common External Tariff, advancing to the final stage of tariff reform will require negotiations with Jamaica's CARICOM partners for a revision of the CET in line with the tariff reform goals. However, Jamaica still has considerable room to maneuver in reducing its rates for many items before running up against the CET rates. At the moment, the highest Jamaican tariff rate plus stamp duty rate is 60 percent. The average CET is 45 percent. The CET for most capital goods and raw materials is much lower than this rate. Thus, Jamaica has a great deal of latitude to adjust rates downward for these two categories of imports. Negotiations with CARICOM partners are at an advanced stage, although final agreement with CARICOM is not expected before January 1991. While it may not be possible for Jamaica to move at this point to the final four tariff rates for all goods, they could still be reduced substantially in many cases within the context of the existing CET and CARICOM negotiations.

Fiscal Implications. While the exact fiscal implications of "fast tracking" the tariff reform are not known, three points are pertinent. First, the sheer volume of imports should improve the overall revenue yield. Second, as noted above, much of the increased volume will go to replace damaged assets already subject to tax once. Thus, revenue yield even at the lower rates can be considered a revenue bonus for the GOJ when viewed in terms of the alternative of ad hoc reductions and exemptions. Third, the expected loss from the lower rates was to be made up in part from the introduction of the GCT, scheduled for implementation in March 1989. If necessary, implementation of the GCT could be speeded up to help forfend any revenue loss.

The Mission has encouraged the GOJ to consider this idea. However, the GOJ has many contending factors to weigh; the crucial point is that it stick at a minimum to its scheduled tariff reform. Our encouragement of GOJ interest in fast tracking some elements of the tariff reform indicates our flexibility in seizing opportunities to advance structural adjustment even in the face of adversity; the GOJ did just this with the privatization of Telecommunications of Jamaica only two weeks after Gilbert struck.

The specific policy item we are proposing is that the GOJ announce simultaneously or prior to the enactment of the GCT the new maximum tariff and stamp duty rates for JFY 1990.

(4) Monopoly Imports by JCTC. The Jamaica Commodity Trading Corporation (JCTC), which serves a useful function as the Jamaican agent for government to government concessional food arrangements,

is also the sole importer of a number of items (primarily, lumber, cars, pharmaceuticals.) The JCTC also subsidizes the sale of certain essential goods for low-income groups, which is financed by tariffs on other imports and by transfers from the rest of the public sector.

Given the expected volume of imports after Hurricane Gilbert, it would be opportune to permit the private sector to import alongside JCTC those goods for which JCTC now acts as monopoly importer. In some cases this is already being permitted as a temporary measure. The goal of policy dialogue on JCTC's role in the economy would be to extend these temporary imports by the private sector, and further trim JCTC's import list. This would enable the JCTC to concentrate on concessional food imports.

The GOJ has indicated an interest in a further analysis of these possibilities. The policy item that we therefore propose is that:

--The private sector be permitted to continue to import building materials and other formerly restricted items now being imported, and import some additional items now reserved uniquely to the JCTC; and

--The GOJ undertake a study on the costs and benefits of JCTC's subsidy operations and the resulting price distortions.

(5) Further Capital Market Development. Capital markets, moribund in the 1970s, have shown renewed vigor in the 1980s as a result of general economic recovery, tax reform, privatization, and increased investor confidence. The GOJ would like to continue the process of capital market development. We therefore propose to assist the GOJ on this policy item by providing funding where needed for the GOJ to examine ways to further promote capital markets. Three specific proposals may be cited:

--Examine the feasibility of a regional stock exchange, and regulations that would have to be revised to permit this.

--Examine the feasibility of streamlining the existing procedures for registering foreign inward direct and portfolio investment, especially by foreign mutual funds.

--Examine the possibility of GOJ debt securities being listed and traded on the Stock Exchange.

(6) Public Sector Deficit. The Consolidated Public Sector Deficit will be targetted for JFY 1988/89 and JFY 1989/90. Given the large reemerging deficit in 1988/89 and the importance of

bringing it under control and reducing it dramatically in 1989/90, USAID and the GOJ will agree on consolidated public sector deficit targets and the domestic financing of those deficits. This discussion might also include some recommendations for improving the efficiency of government expenditures in such areas as health and education, particularly as specific proposals develop from USAID projects in these area.

Conclusion. USAID/J is therefore proposing an ESF package of US $24.2 million to provide immediate balance of payments assistance to help Jamaica recover from the damages inflicted by Hurricane Gilbert and sustain Jamaica's track record of structural adjustment and growth.

V. PROGRAM IMPLEMENTATION

A. Summary

The proposed $24,200,000 program will be authorized for obligation in two separate tranches. The first tranche will be disbursed as soon as possible after commitment of FY 1989 funds as a cash transfer into a GOJ account in a United States bank in the United States established specifically for the purpose of receiving cash transfers. The second tranche will be disbursed after satisfaction of the requirements under the Anti-Drug Abuse Act of 1988 and a second CN is cent to Congress and expires.

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

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

In line with guidance contained in State 325792, dated 20 OCT 87, the Grant Agreement will require the GOJ to use the funds, and any accrued interest, to effect debt service payments. Jamaica's huge foreign debt servicing burden, by siphoning needed resources out of the economy, continues to be a barrier to growth and development. Although Jamaica has rescheduled its commercial and bilateral debt, additional assistance from the IMF and the World Bank has been stretched to the institutionally regulated limit, and debt servicing will continue to be a major concern for the foreseeable future.

It is expected that the majority (probably all) of the FY 1989 cash transfer will be used to satisfy debt servicing requirements. This will not include debt relating to military requirements or debt known to have been incurred to finance equipment for surveillance, abortion, gambling, or weather modification; luxury items; or pesticides which are not registered by the U.S. Environmental Protection Agency for use without restriction. Service of debt owed to the U.S. government (exclusive of FMS debt) shall have first priority. In addition, the Mission is requesting concurrence from LAC/AA to use the cash transfer dollars for servicing of debt owed to multilateral development banks and the IMF.

Since 1983 Jamaica has used an auction system to allocate available foreign exchange. During the first two years of the system, the Jamaican dollar depreciated substantially against the U.S. dollar, stabilizing at about the current rate of J$5.5 to the US$1 in early 1986. Under this system there has been improved private sector access to foreign exchange at market-oriented rates. The major problem centers around delays in delivery of foreign exchange that occur when the Bank of Jamaica (BOJ) experiences drains of foreign exchange as a result of bunching of debt repayment, seasonal reduction in tourism receipts, emergency requirements for food imports, or similar cash flow problems. The BOJ must operate on the slimmest of foreign exchange margins, and against a backdrop of large debt service payment and negative net international reserves. There is very little give in this foreign exchange management arrangement, and the BOJ has often been forced to patch together foreign exchange from a wide variety of sources, including advance sales of state-controlled exports and other foreign exchange receipts, occassional arrearages in some debt and delays in delivery of foreign exchange to the auction.

Given the somewhat precarious position of foreign exchange management in Jamaica, the use of ESF funds for debt service provides a welcome - and beneficial- element of stability. The net effect of using the cash transfer for debt service is virtually the same as providing it to the private sector through the auction, since both debt service and import needs must be met. If debt is not serviced on schedule, or the auction delivery is delayed continuously, the GOJ will not be in compliance with its IMF program. If the cash transfer is unavailable for debt servicing, the GOJ will need to find some means of restricting access to the auction - a measure that is likely to impact most severely on small businesses that are generally at the end of the line for foreign exchange.

Providing the cash transfer to the auction directly would not increase the supply of foreign exchange to the auction, since the GOJ would, of necessity, retain an equal amount from the auction from other sources to meet its debt obligations. Given the requirements for explicit tracking of U.S funds it is likely that U.S. funds provided directly to the auction would be used for big ticket items for large businesses, or even Parastatals, thus crowding out small private sector firms. Furthermore, it will require greater GOJ involvement in private sector financial transactions, which is precisely what the Jamaica policy dialogue has been moving the country away from.

The Memorandum of Understanding to the Project Agreement (see Annex B) will outline the procedures for monitoring the use of the U.S. Dollars for debt servicing.

C. Local Currency Programming and Reporting

Under the Grant Agreement, the GOJ will be required to deposit an equivalent amount of local currency into a Special Account in the Bank of Jamaica. As evidence of this transaction, the GOJ will provide to USAID a bank statement within two weeks of the end of the month in which the disbursement occurs. In line with the guidance in State 327494, dated 21 OCT 87, this will be an interest bearing account.

In line with AID's basic policy statement governing the management of Host Country Owned Local Currency (Policy Determination Number 5), supplementary guidance in State 327494, dated 21 OCT 87, and subsequent LAC Bureau clarifications provided by State 224820, dated 13 JUL 88, the Mission will be pursuing a general budgetary approach to the programming of ESF Host Country Owned Local Currency.

The Memorandum of Understanding to the Project Agreement (see Annex C) will outline the procedures for programming and monitoring the local currency.

D. Conditions, Covenants and Negotiating Status

The Grant Agreement which will obligate the funds will contain the following conditions precedent:

(1) "Prior to the first disbursement under this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Government of Jamaica will furnish to A.I.D., in form and substance satisfactory to A.I.D.:

"(a) An opinion of the Attorney General of the Government of Jamaica, or other counsel satisfactory to A.I.D., that this Agreement has been duly authorized and/or ratified, and executed on behalf of the Government of Jamaica and that it constitutes a valid and legally binding obligation of the Government of Jamaica in accordance with all of its terms.

"(b) A statement representing and warranting that the named person or persons have the authority to act as the representatives of the Government of Jamaica together with a specimen signature of each person certified as to its authenticity."

"(c) A letter of request outlining the quarterly macroeconomic and structural reform guidelines that the GOJ has set out to achieve as part of its economic growth and stabilization program.

(2) Prior to the second disbursement under this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Government of Jamaica will furnish to A.I.D., in form and substance satisfactory to A.I.D.:

"(a) Evidence that the guidelines established in the letter of request for this ESF program are being met or the GOJ is taking actions to redress shortfalls.

(3). Conditions - The GOJ will continue to maintain and implement a stabilization and structural reform program.

E. Payment Verification

Upon meeting the conditions precedent, the Grant will be a cash transfer. Given this method of financing, the budgeting of funds to carry out non-Federal audits is not appropriate. Mission Controller concurs that the payment verification policy has been complied with.

F. Program Implementation Schedule

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

Activity	Anticipated Date
1. PAAD Issues meeting	November 29, 1988
DAEC meeting	December 1, 1988
Approved	December 9, 1988
2. CN Sent to Hill	December 16, 1988
3. Issue budget allowance	December 27, 1988
4. (CP) Legal Opinion/ Authorized Representatives and request letter	December 27, 1988
5. Sign Grant Agreement	December 31, 1988
6. Disburse first tranche	December 31, 1988
7. Deposit local currency equivalent	December 31, 1988
8. A. Discussion with MOF on Budget Authority and counterpart fund requirements	February 15, 1989
B. Certification to Congress*	March 1, 1989
C. CN to Congress	March 15, 1989
9. Issue budget allowance	May 15, 1989
10. Sign Amendment for 2nd tranche	May 15, 1989
11. Financing Request	May 15, 1989
12. Disburse second tranche	May 15, 1989
13. Deposit local currency equivalent	May 15, 1989
14. Programming of local currency for JFY89/90 activities	June 30, 1989

* N.B. This assumes the Presidential Anti-Drug Abuse Certification is submitted to Congress prior to March 1, 1989 and that implementation of Anti-Drug Abuse Act of 1986 procedures will be similar to those of FY 1988.

ANNEX A

STRUCTURAL ADJUSTMENT IN THE 1980s

1. Comprehensive Tax Reform. In 1983, the GOJ undertook a comprehensive reform of its tax structure, with technical assistance provided under USAID/Jamaica's Board of Revenue Assistance project. In January 1986, the GOJ announced the first phase of its comprehensive tax reform program, following several years of careful analysis and preparation. The GOJ reduced the highest marginal tax rate on personal income tax from 57 and a half percent to a flat 33 and a third percent, eliminated a range of credits and allowances, streamlined administration, introduced measures to bring more people onto the tax rolls while raising the minimum exemption level. It also announced that interest earnings would be subject to tax, the first in a series of measures to help redress the serious imbalance in the incentives between debt and equity in private sector financing.

One year later, the GOJ enacted its corporate tax reforms, reducing corporate taxes from 45 percent to 33 and a third, the same level as personal income taxes.

2. Privatization. Privatization is one of the cornerstones of the GOJ program to tackle the related problems of under-performing public sector assets, over-burdened public budgets, and heavy indebtedness. The GOJ has employed all of the basic forms of privatization, such as the contracting out for services (including management), leases, user fees, closures, sale of minority positions, and outright divestments.

The major accomplishments of the program can be divided into two basic groups: privatization of agriculture, smaller enterprises and services; and the privatization of the large public enterprises.

Privatizations in the former category include:

--The reorganization of the sugar industry. The oldest in Jamaica, the sugar industry is still an important earner of foreign exchange and source of rural employment. Old, inefficient state run estates have been closed down, and management contracts have been signed with the British agricultural concern Tate and Lyle to run the two largest estates.

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--The liberalization of the banana industry. Banana processing factories have been sold to private interests, and the state controlled Banana Company has been turned over to private growers.

--The leasing of agricultural lands. The government owns a estimated 200,000 acres of lands suitable for agriculture, which have not been fully used in the past. Since the program began in 1985, the GOJ has privatized 57,000 acres on 36 properties, through a long-term lease program.

--The Divestment Committee has been charged with the privatization of about 35 of the smaller state owned enterprises. Of these, 16 have been effectively privatized, another 10 are nearing completion, and the remainder are either in the process of being prepared for sale to the public or, upon further investigation, have been deemed unsuitable for privatization.

--Privatization of the government bus company in Kingston and Montego Bay.

--The Jamaica Industrial Development Corporation (JIDC) has sold 40 factories, buildings and tracts of land.

--The introduction of cost related fees for university students.

--The majority of rural agricultural markets has been leased to the private sector

--The GOJ has divested the housekeeping, portering, and garbage and sanitation services in three Kingston public hospitals to the private sector.

--In 1981 the GOJ leased most of the hotels that it had acquired by default in the 1970s when tourism declined. In 1987 the GOJ offered for sale all government owned hotels. To date it has sold one for US$9 million. The others are being actively marketed.

In the second category, the privatization of the large public enterprises has also realized significant gains. The major state owned enterprises in Jamaica are included in a special group called the 21 Selected Public Enterprises. As a part of its structural adjustments, the GOJ has focused on this group to improve their operating balances and reduce inter-governmental arrears. The introduction of a number of cost related user fees, including increases in tariffs for water and sewerage, electricity, telephone, basic foods and petroleum products, has improved the consolidated

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operating surplus of these enterprises from J$5 million in 1980 to over J$500 million in 1987. In reducing the public deficit over time this measure, though relatively unheralded, may be one of the most important privatization measure yet adopted by the GOJ.

In galvanizing public attention and support for privatization, nothing has had quite the impact of Jamaica's broad-based public share offer, case studies on which have become the mainstays of international conferences on privatization.

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

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

The successful share offer of the NCB in December 1986 lent credibility and visibility to privatization, upon which the GOJ was quick to capitalize. The GOJ completed the privatization by share offer of over 70 percent of the Caribbean Cement Company (CCC), in June 1987 with a total J dollar volume of shares twice that of the NCB. In all, 91 million shares were sold at a price of J$2.00 each, for a total of J$182 million. Over 24,000 buyers applied for and received the shares, including 99 percent of the employees of the company.

Despite the devastation visited upon Jamaica by Hurricane Gilbert, which struck on September 12, the GOJ went ahead with the share offer of TOJ. The 105 million shares available to the public were oversubscribed by almost 25 percent. The employee share scheme, under which an additional 21 million shares were reserved for permanent, full time TOJ employees, also went well. Including employees and the public at large, 13,850 applications were made for the shares. The share offer of TOJ was underwritten by 14 financial institutions before the share offer, the first such underwriting in Jamaica.

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

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

In the present JFY, work is continuing on improving the GOJ's financial management system through an Administrative Reform Program (ARP), aimed at developing an integrated system of accounting, cash management, and financial reporting. The authorities have undertaken to make further improvements in public sector accounting by the end of the current JFY.

4. Trade and Tariff Reforms. During the 1960s and 1970s Jamaica's trade and industrial policies worked hand in hand to promote an industrial strategy of import substitution and the development of a regional market under the aegis of CARICOM. High tariffs, quantitative restrictions, import licenses and an overvalued exchange rate were the chief sources of the anti-export bias of Jamaica's trade and industry policy set.

One of the main elements of trade policy has been the Common External Tariff (CET), which established duty rates generally between 0 and 75 percent of import value. In all, the CET provides

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for 70 specific and seventeen ad valorem rates of duty. In the 1970s, the protections afforded by tariffs was reinforced by pervasive quantitative restrictions (QRs), import licensing and an overvalued exchange rate.

In general, the structural adjustment program of the 1980s has been successful in adjusting trade policy to shift from an industrial strategy of import substitution to export led growth, primarily by eliminating many QRs and items subject to import licensing, and making the exchange rate more competitive. The GOJ lifted the the first set of 60 quantitative restrictions (QRs) in early 1982, the first step in a five year program to eliminate as many of these restrictions as possible. In the years since, the number of items subject to QRs has been reduced from over 360 to under 90.

The tariff reform program is set out in a cabinet paper submitted to Parliament in February 1987. The reforms include the simplification of the duty system and its administration. The program consist of a 4 year program to reduce the dispersion of nominal import tariff and stamp duty rates, ranging from zero to over 200 percent, by eliminating tariff peaks and introducing a minimum tariff for items presently with a statutory zero CET and stamp duty.

In March 1987, the GOJ introduced a maximum total CET and stamp duty rate of 68 percent, reducing maximum rates that in some cases reached 200 percent. This maximum rate was further reduced, as planned, to 60 percent in March 1988. The ultimate goal includes a final set of four tariff rates to be achieved by March 1991: 10 percent for raw materials, 20 percent for capital goods and 30 percent for consumer goods.

5. <u>The Exchange Rate</u>. In the early 1980s, the exchange rate was fixed at J$1.78 = US$1.00. In December 1984, after a period of experimenting with different exchange rate regimes to address the problems posed by a fixed exchange rate and high domestic inflation, the GOJ initiated a biweekly auction. It was subsequently replaced by a flexibly managed system with the rate targeted at J$5.50 = US$1.00. The GOJ supplies all foreign exchange demanded at this rate, normally without serious delay in delivery. With the devaluations of the Jamaican dollar, and the depreciation of the US dollar against a basket of other foreign currencies, the Jamaican dollar has depreciated in real effective terms by 36 percent over the period 1980-1987. This has provided a greater incentive to produce for export.

As a safeguard against a possible erosion in competitiveness, the GOJ has agreed that whenever the average index of the effective exchange rate over a three-month period indicates an appreciation of the Jamaican dollar of more than 5 percent over the level of December 1986, the Jamaican dollar would be allowed to depreciate as necessary to return to its real effective exchange value at the base date. Also, in case of under-performance under the target for net international reserves, the authorities intend to reduce the supply of foreign exchange in the auction, which would be expected to result in a depreciation of the Jamaican dollar.

6. <u>Fiscal Policy</u>. Perhaps the most import structural reform was the gradual reduction in the level of the public sector deficit, towards which many of the reforms above contributed directly or indirectly. Excessive money creation, primarily through a government overdraft facility with the Bank of Jamaica, financed the large and persistent public sector deficits during the period 1973-1983. This in turn fueled inflation, contributed to a loss of foreign exchange reserves, increased capital flight, increased foreign debt, and crowded out the private sector in financial markets. The imposition of cash reserves and liquidity ratios on the financial institutions sheltered public sector borrowing from the real cost of money. For example, the commercial banks could meet the liquidity ratios only by purchasing low yielding GOJ treasury bills, which forced them to charge higher rates for commercial loans to the private sector.

In the face of the severe difficulties imposed by the fall in bauxite and alumina earnings, the overall public sector deficit remained high until 1985. During the last two years, however, the overall deficit has declined to about 5 percent of GDP.

This improvement has come about partly as a result of the tax reform which, although lowering rates, has actually increased revenue yield because of the buoyancy of the new system. Privatization, primarily in the form of cost-related user fees introduced by public sector enterprises, and to a lesser extent, the sale of enterprises, has also played a critical role in reducing the deficit. Sharp budget cuts and major personnel reductions were also implemented in 1985 and 1986.

7. <u>Deregulation</u>. The GOJ has made important strides in deregulation of the economy. The number of items subject to price controls has been reduced from 60 to 13.

Jamaica has made progress in liberalizing its exchange controls on capital account transactions. Given its position of substantial negative net international reserves and only a very small level of gross liquid reserves, this is one area of the structural adjustment agenda that has moved more slowly than others, even though important preliminary steps have been taken.

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

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

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

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

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

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

9. Debt Management. The major challenges facing the Jamaican economy over the next few years is the large foreign debt and its servicing at a time (prior to Hurricane Gilbert) when the IMF, and World Bank are withdrawing resources on net.

Many creditors have shown a willingness to offer temporary debt relief. However, Jamaica's total external debt stands at approximately US$4 billion. In spite of the current international

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goodwill towards Jamaica, the servicing of its external debt will put a serious drain in the medium term on available foreign exchange needed to sustain the recently experienced real rates of growth.

Jamaica has followed a strategy of rescheduling debt, and initiated a debt-equity swap program in late 1987. The GOJ's decision to implement a debt-equity swap program in December 1988 represented an important new initiative in tackling several related problems. Clearly, such a program cannot be a panacea, especially in the light of the relatively small amount of commercial debt as a percentage of total external debt. Nevertheless, it represents the opportunity to simultaneously reduce the outflow of foreign exchange on debt service and reduce the cost of the investment for the foreign investors who have often been put off in the past by their perceptions of political and economic risk in Jamaica. Perhaps most importantly, the debt-equity swap program demonstrates the resolve of the GOJ to take the initiative as well as some risk in dealing with its economic problems.

For the moment, the debt problem has been eclipsed by the devastation of Hurricane Gilbert. The debt problem remains a serious medium term problem, however.

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ANNEX B

U.S. DOLLAR USE MONITORING

The Memorandum of Understanding to the Project Agreement will outline the procedures for monitoring the use of the dollars for debt servicing. This process is relatively straight forward and the BOJ is familiar with it, having used with it when reporting on the use of the second tranche of Production and Employment VII.

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

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

Discussions subsequent to the P&E VII disbursements, based on subsequent guidance from AID/W, have clarified the issue of direct payment to the end use vs. transferral to a temporary general use account. The issue has been underscored by the interest expressed by the RIG audit team, and the BOJ has agreed to directly disburse the funds from the Separate Account to the end user.

LOCAL CURRENCY PROGRAMMING AND MONITORING

The Memorandum of Understanding to the Project Agreement will outline the procedures for programming and monitoring the Host Country Owned Local Currency. The following summarizes the procedures which will be used for the FY89 program as well.

Use: The Local Currency made available for joint programming under the ESF Agreement will be used to assist the GOJ in meeting its fiscal objectives. This budget support for the GOJ will be provided in support of the capital development portion of the annual Estimates of Expenditure.

Programming: In line with State 325792 and State 224820, dated 1986, the Mission will be pursuing a General Budgetary Support approach to the programming of Local Currency.

The Mission's ESF Project Officer in the Office of Projects and Private Enterprise will review the capital development budget to determine if any unauthorized items have been included. Following negotiations with the MOF on any discrepancies of this nature, the Project Officer will prepare a Project Implementation Letter to be signed by the Mission Director and countersigned by the Financial Secretary of the MOF in order to formally program the funds.

Reporting: On a quarterly basis, the MOF (Economic Division/Public Debt Section/International Loan Monitoring Unit) will compile information on actual capital expenditures. This report will be forwarded to the Mission's ESF Project Officer within 60 days of the end of each fiscal quarter.

Following the end of the Jamaican Fiscal Year and the GOJ's own internal reconciliation of the year's expenditure figures, the MOF will transmit a copy of this report to USAID.

On a quarterly basis, the MOF International Loan Monitoring Unit will transmit a transferral request to the Bank of Jamaica requesting that the amount identified in the Quarterly Report be transferred from the Special Account(s) to the GOJ's Consolidated Fund as reimbursement for GOJ expenditures as agreed to in the PIL. The MOF will transmit a copy of this request, along with copies of the monthly bank statements for the Special Account(s) bank statement(s) from the Bank of Jamaica to the Mission ESF Project Officer.

Monitoring: Following signature of an ESF Agreement, the ESF Officer will open a monitoring file to track the disbursements from the Special Account. Upon receipt of the Quarterly Report, the transmittal request, and the bank statements from the MOF, the ESF Project Officer will review these documents for consistency with the PIL.

Following receipt of the internal reconciliation of the year's expenditure figures, the ESF Project Officer will review this information to ensure the GOJ has acted in accordance with the grant agreement and PIL(s).

E3. Local Currency for USAID Trust Fund

Use: The Mission established a Trust Fund Agreement with the GOJ on August 25, 1982 in order to provide funds to operate the US Government's economic assistance program in Jamaica. The costs agreed upon at that time were (1) program costs (i.e., technical feasibility studies, technology transfer, small scale development activities, etc.); (2) administrative costs of the U.S Mission (i.e., purchase of supplies and equipment, leasing of office and residential space, cost of utilities, salaries, and other expenses of non-U.S. personnel, etc); and (3) contractor costs (i.e., local currency support for contractors implementing the U.S. economic foreign assistance program). The amount of the original Agreement is increased periodically through the mechanism of a Memorandum of Understanding signed in conjunction with a particular ESF cash transfer agreement. The GOJ provides local currency to the Trust Fund Account on a quarterly basis in the name of the U.S. Disbursing Officer, subject to the approval of the Government of Jamaica. In general, the Trust Fund is now used for local currency costs under the Mission Operating Expense Fund (item (2) above).

At this time, the Mission does not use Trust Funds for project activities. In the event that a determination is made to do so, the Trust Fund Agreement would be have to be amended and a PP-like authorization document representing an appropriate level of development, analysis, and justification would be prepared for the approval of the LAC Bureau Assistant Administrator.

Management and Implementation Procedures: This account is managed by the Office of the Controller. Funds are obligated using standard AID documentation, i.e. purchase orders, travel authorizations, contracts, etc. and are subject to the Federal Acquisition Regulations (FAR) and AID Acquisition Regulations (AIDAR). The Trust Fund is an integral part of the annual Mission Operating Expense Budget and clearance of funding documents follows normal Mission procedures. However, any property purchased with Trust Funds is titled in the name of the GOJ and should be so identified in the property records and on the individual items.

Reporting: In line with Handbook 19, the Mission Controller will prepare a report on Trust Fund expenditures on an annual basis for submission to the International Loan Monitoring Unit of the MOF.

Jamaica
FY 1989

3M(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

1. No.

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

2(a) Yes.

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

3(a) No.
3(b) No.
3(c) No.
3(d) No.

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

4. No.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

5. No.

6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification?

6. No.
N.A.
No
No

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

7. No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?

8. No

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9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

9(a) No

9(b) N.A.

10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds?

10(a) No.

10(b) No

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

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

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

12. No

N.A.

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

13. Not in arrear

N.A.

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

14. No

15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?

15. No

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

16. No

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

17. No

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

18. No

No

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

19. No

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

20. Yes, they attended and they di not disassociate themselves from the communique. However, they did submit specific reservations. This was taken into account by the Administr -tor at the time o the Agency OYB.

21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

21. No

22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

22. No

23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

23. Yes

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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

N.A.

FY 1988 Continuing Resolution Sec. 538.

Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performace of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? — No

2. Economic Support Fund Country Criteria

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

N.A.

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? — Yes

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

ANNEX E

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

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

Yes, in November 1988. Jamaica: FY 1989
Yes.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

1. Congress will notified in accordance with routine A.I.D. procedures.

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

2. No further legislative action required.

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

3. No

N.A.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

See top of pag for No. 4.

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

See bottom of page for No. 5

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

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

6. FAA Secs. 612(b), 636(h); FY 1988 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

See top of page for No. 6.

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

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

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

8. N.A.

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

9. N.A.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

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

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

Yes.

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

1(b) No

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

1(c) Yes

Yes

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

1(d) N.A.

e. FY 1988 Continuing Resolution. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the

1(e)(a) Yes

1(e)(b) Yes

U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

1(e)(c) Congress will receive prior notification in accordance with routine A.I.D. procedures.

f. FY 1988 Continuing Resolution. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

1(f) N.A.

2. Nonproject Criteria for Development Assistance

2. N.A. Funds are ESF

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

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

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local

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conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

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

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

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

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

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

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

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

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

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

ANNEX F

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

LAC-IEE-89-06

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Jamaica
Project Title	:	Production and Employment IX
Project Number	:	532-0154
Funding	:	$25 million (ESF)
Life of Project	:	1 year
IEE Prepared by	:	Charles Mathews USAID/Kingston
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	None
Copy to	:	William Joslin, Director USAID/Kingston
Copy to	:	Charles Mathews, USAID/Kingston
Copy to	:	Patricia Buckles, LAC/DR/CAR
Copy to	:	Andre DeGeorges, REMS/CAR
Copy to	:	IEE File

John O Wilson Date DEC - 2 1988

John O. Wilson
Deputy Environmental Officer
Bureau for Latin America
and the Caribbean

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ENVIRONMENTAL DETERMINATION

Project Location	:	Jamaica
Project Title and Number	:	FY 1989 PAAD
Funding	:	$25,000,000
Life of Project	:	1 Year
Prepared by	:	Charles R. Mathews Environmental Officer
Mission Determination	:	Categorical Exclusion

A. Activity Description

Production and Employment IX will provide a grant of $25,000,000 from Economic Support Funds. The purpose of the grant is to provide immediate balance of payments assistance in support of GOJ actions to establish a policy environment that is conducive to more robust long-term growth and development.

The proposed ESF funds will be used to service debt. The GOJ will deposit the U.S. dollars in a separate account for the purpose and will deposit an equivalent amount of Jamaican dollars in a special account locally for use on mutually agreed upon high priority development purposes. The Mission will use a general budgetary support approach to programming these funds and will not control or review individual project activities. The standard conditions precedent involving the submission of the legal opinion, the designation of authorized representatives and a financing request will be satisfied prior to disbursement of funds pursuant to this grant.

B. Discussion

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

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

B. Recommendation

Based on the above, it is recommended that you approve a Categorical Exclusion.

Approved: [signature]

Disapproved: ______________

Date: [illegible]

William Joslin, Mission Director

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These documents spelled out a means of measuring progress and the anticipated impact of the reforms on the economic development of the country. The program document for the fiscal year 1987 cash transfer program in El Salvador contained criteria that the government of El Salvador had adopted in its calendar year 1987 economic plan. The AID document stated that AID would provide cash transfer funds based on El Salvador's normal progress in implementing its economic plan. The criteria in El Sàlvador's economic plan appeared to be sufficiently detailed to enable AID to measure reform progress.

In contrast, the program document upon which Egypt's cash transfer was based stated policy reform goals in very broad terms, without specifying how AID would measure progress. Although the program document listed policy reform measures that Egypt had taken since the last cash transfer, it did not attempt to explain the significance of the reforms or to relate them to U.S. policy dialogue efforts. Neither did it give a forward look at what further reforms U.S. officials would seek, time frames, or milestones. Zambia's program document included a clear statement of the specific economic policy reforms that the cash transfer was intended to encourage; however, it did not provide any kind of benchmarks or measures to evaluate progress.

We recognize that AID's approach to policy dialogue varies by country. However, regardless of the approach it takes, we believe that AID needs to set forth clear criteria—at least in its internal program documents if not in actual grant agreements—to guide its policy reform efforts. Although establishing such criteria does not eliminate all the difficulties in achieving and measuring progress and impact, setting forth more specific plans for AID's policy reform efforts should improve the prospects for success.

AID Appears to Have Had Mixed Success in Promoting Policy Reform

Recognizing the limitations in measuring the impact of policy reform efforts, it appears that AID has achieved mixed success, both overall and within specific countries. Some of the successes AID and host government officials credit to ESF policy reform efforts include

- exchange rate adjustments and/or reduction of exchange controls in the Dominican Republic, Jamaica, Guatemala, Bolivia, Zaire, and Costa Rica;
- reduced budget deficits in Costa Rica, Senegal, and Jamaica;
- elimination or substantial reduction of price controls over some commodities in Senegal, Pakistan, Zambia, Guatemala, Jamaica, and Zaire;

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- adjustment of utility rates to eliminate or reduce the operating losses of state enterprises in Pakistan and the Dominican Republic;
- reduction of import restrictions in Jamaica and Zaire;
- tax or tariff reform in Jamaica, Pakistan, Senegal, Guatemala, and Ecuador;
- divestment of state-owned enterprises in Costa Rica, Jamaica, and Honduras;
- expansion of nontraditional exports in Costa Rica, Jamaica, and Zambia;
- promotion of private sector activities in Jamaica, Pakistan, Senegal, and Costa Rica; and
- support of Egypt's decision to enter into an IMF Stand-by Arrangement.

Despite these successes, governments have not always taken the key policy measures that AID believes are essential to long-term economic recovery and growth. For example,

- El Salvador has not made needed adjustments in its exchange rate or negotiated an IMF agreement,
- Liberia has been slow coming to terms with its burgeoning foreign debt problem,
- Zambia has cancelled the foreign exchange auction that AID supported, and
- Egypt has not moved quickly enough to adopt the economic reforms necessary to address the numerous and costly inefficiencies that pervade the Egyptian economy.

Various Factors Affect AID's Success

AID, host government, and other donor officials emphasized that there can be no recipe approach to successful policy reform efforts, since the approach must be tailored to reflect both U.S. and recipient country objectives and circumstances. No single approach appears to guarantee success, as evidenced by our review. We found examples of policy reform successes and failures under all three ESF program types, in programs seeking extensive and detailed reforms, and in programs either loosely or strictly conditioned.

According to AID officials, the approach AID takes to policy reform is only one element that can influence policy reform efforts. Other factors AID cited as contributing to successful economic reform efforts included:

- Host government is convinced of the need for reform and is actively seeking solutions to its economic problems.

Table IV-1. JAMAICA: MONETARY ACCOUNTS, FY 1978-91

(Millions of J$)

	Level 3/31/83	1978	1979	1980	1981	1982	Changes During FY 1983	1984	1985	1986	1987	Pre-mur, Post-mur. Proj. 1988	Proj. 1989	Proj. 1990	Proj. 1991
BANKING SYSTEM															
Net International Reserves	-2843.0						-459.0	977.0	196.0	295.0	819.0	968.9	-152.6	510.0	974.7
Net Domestic Assets	10680.0						1173.0	-392.0	786.0	892.0	492.0	291.1	1657.7	1051.7	559.1
Net credit to Central Government	3974.0						794.0	-626.0	191.0	299.0	-1243.0				
Net Credit to Rest of Public Sector	-1602.0						317.0	-163.0	-502.0	-619.0	-232.0	-1504.3	-307.8	-957.3	-1425.5
Net Bank of Jamaica Losses	1697.0						142.0	576.0	858.0	822.0	875.0	823.3	823.3	823.3	823.7
Net Credit to Other Financial Inst.	-932.0						-54.0	-102.0	-370.0	-313.0	-159.0	-11.0	-11.0	-11.0	-11.0
Credit to Private Sector	4238.0						400.0	124.0	313.0	545.0	1608.0	985.0	1159.1	1202.6	1161.2
Foreign Liabilities (medium & long-term)	-3024.0						-254.0	-332.0	-158.0	25.0	22.0	232.0	232.0	232.0	232.0
Net Unclassified	7206.0						-292.0	251.0	254.0	133.0	161.0	-237.9	-237.9	-237.9	-237.9
SDR Allocation	310.0						—	—	—	—	—	—	—	—	—
Liabilities to Private Sector	7527.0						674.0	675.0	982.0	1187.0	1311.0	1279.0	1505.1	1561.6	1533.5
Money	1757.0						92.0	184.0	222.0	310.0	266.0	299.0	351.9	365.1	358.6
Quasi-money	4836.0						455.0	389.0	715.0	712.0	873.0	822.0	967.3	1003.6	985.8
Other	933.0						127.0	102.0	45.0	165.0	172.0	158.0	185.9	192.9	189.5
Broad Money	6593.0						547.0	573.0	937.0	1022.0	1139.0	1121.0	1319.2	1368.7	1344.4
BANK OF JAMAICA															
Net International Reserves	-3236.0						-356.0	1063.0	346.0	305.0	954.0	964.7	-105.5	413.2	955.5
Net Domestic Assets	3796.0						602.0	-1000.0	-125.0	-158.0	-829.0	-831.7	291.5	-220.3	-764.0
Net credit to Central Government	1484.0						735.0	-824.0	-224.0	-72.0	-1194.0				
Net Credit to Rest of Public Sector	-1167.0						415.0	-120.0	-393.0	-35.0	-495.0	-1417.0	-289.8	-901.6	-1345.3
Net Bank of Jamaica Losses	1697.0						142.0	576.0	858.0	822.0	875.0	823.3	823.3	823.3	823.3
Net Credit to Banks	-1731.0						-477.0	-318.0	-334.0	-672.0	-198.0	-533.0	-533.0	-533.0	-533.0
Net Credit to Other Financial Inst.	-423.0						-2.0	1.0	-51.0	-208.0	-113.0	51.0	51.0	51.0	51.0
Foreign Liabilities (medium & long-term)	-2956.0						-226.0	-329.0	-156.0	36.0	37.0	240.0	240.0	240.0	240.0
Net Unclassified	6892.0						23.0	13.0	175.0	-31.0	257.0	0.0	0.0	100.0	
SDR Allocation	310.0						—	—	—	—	—	—	—	—	—
Liabilities to Private Sector	930.0						46.0	63.0	221.0	147.0	155.0	158.0	185.9	192.9	189.5
Currency in Circulation	764.0						46.0	63.0	114.0	138.0	105.0	130.0	153.0	158.7	155.9
Certificates of Deposit	166.0						—	—	107.0	9.0	50.0	28.0	32.9	34.2	33.6
BANKING SYSTEM (Percent Change)															
Net International Reserves							-0.098	0.190	0.047	0.075	0.224	0.348	-0.054	0.170	0.392
Net Domestic Assets							0.148	-0.034	0.092	0.096	0.048	0.027	0.155	0.085	0.052
Net credit to Central Government							0.214	-0.146	0.050	0.074	-0.267	0.000	0.000	0.000	0.000
Net Credit to Rest of Public Sector							0.787	-1.895	-2.016	-0.824	-0.169	-0.937	-0.192	-0.501	-0.892
Net Bank of Jamaica Losses							0.090	0.402	1.000	ERR	1.064	0.485	0.485	0.327	0.485
Net Credit to Other Financial Inst.							-0.403	-0.543	-0.586	-0.680	-0.206	-0.012	-0.012	-0.012	-0.012
Credit to Private Sector							0.284	0.057	0.137	0.209	0.345	0.232	0.273	0.223	0.279
Foreign Liabilities (medium & long-term)							-0.109	-0.129	-0.054	0.008	0.007	0.077	0.077	0.083	0.077
Net Unclassified							-0.043	0.039	0.038	0.019	0.020	-0.033	-0.033	-0.034	-0.033
SDR Allocation							0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Liabilities to Private Sector							0.250	0.200	0.243	0.236	0.211	0.170	0.200	0.173	0.204
Money							0.135	0.237	0.231	0.262	0.178	0.170	0.200	0.173	0.204
Quasi-money							0.269	0.181	0.282	0.219	0.220	0.170	0.200	0.173	0.204
Other							0.394	0.227	0.082	0.277	0.226	0.169	0.199	0.172	0.203
Broad Money							0.230	0.196	0.268	0.231	0.209	0.170	0.200	0.173	0.169
BANK OF JAMAICA															
Net International Reserves							-0.118	0.202	0.083	0.079	0.278	0.387	-0.041	0.155	0.424
Net Domestic Assets							0.113	-0.169	-0.025	-0.033	-0.179	-0.219	0.077	-0.054	-0.199
Net credit to Central Government							0.242	-0.217	-0.075	-0.026	-0.446	0.000	0.000	0.000	0.000
Net Credit to Rest of Public Sector							0.770	-0.968	-1.611	-0.055	-0.737	-1.211	-0.248	-0.619	-0.570
Net Bank of Jamaica Losses							0.090	0.402	1.000	ERR	1.064	0.485	0.485	0.327	0.246
Net Credit to Banks							-1.780	-1.222	-0.674	-0.780	-0.129	-0.305	-0.306	-0.255	-0.191
Net Credit to Other Financial Inst.							-0.040	0.019	-1.000	-2.039	-0.365	0.121	0.121	0.137	0.159
Foreign Liabilities (medium & long-term)							-0.103	-0.129	-0.054	0.013	0.013	0.081	0.081	0.085	0.097
Net Unclassified							0.004	0.002	0.027	-0.005	0.039	0.000	0.000	-0.015	0.000
SDR Allocation							0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Liabilities to Private Sector							0.154	0.185	0.543	0.234	0.200	0.170	0.200	0.173	0.145
Currency in Circulation							0.154	0.187	0.281	0.265	0.159	0.171	0.200	0.177	0.145
Certificates of Deposit										0.084	0.431	0.165	0.195	0.172	0.144

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ANNEX 1

Table III-1. JAMAICA: PUBLIC SECTOR OPERATIONS AND FINANCING, FY 1978-90

(Millions of J$)

											Pre-Hur.	Post-Hur.		
											Proj.	Proj.	Proj.	Proj.
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1989	1990
Central Gov't Revenue	1037.4	1133.0	1191.7	1507.1	1649.5	1794.7	2684.0	3150.7	4361.1	5029.5	5705.6	5750.0	6550.0	7375.0
Divestment Proceeds	--	--	--	--	--	--	--	--	25.0	323.0	336.5	110.0	276.5	306.5
Grants	--	--	--	--	--	--	25.0	123.7	130.0	154.1	318.1	967.0	424.2	317.7
Central Gov't Current Exp.	1139.1	1307.8	1550.3	1715.3	1861.4	2374.0	2817.9	3253.0	3755.0	4187.3	4708.8	5138.7	5429.7	5627.6
Central Gov't Cap. Exp.	431.5	356.4	471.8	642.9	656.6	508.1	447.2	570.8	922.0	1163.1	1370.0	1974.7	1807.0	1733.1
Guaranteed Lending to Private Sector						80.9	70.2	90.2	42.6	156.5	201.8	796.0	201.8	201.8
Central Gov't Deficit After Grants	-533.2	-531.2	-830.4	-847.1	-868.5	-1196.3	-624.3	-657.6	-203.5	2.7	79.6	-1082.6	-225.8	398.7
Oth. Pub. Sector Deficit	91.7	116.6	132.6	-2.2	-98.1	-146.7	-204.9	-136.0	215.7	-10.7	231.7	-233.1	231.7	231.7
Bank of Jamaica Losses						-142.1	-576.0	-857.9	-822.0	-875.4	-823.3	-823.3	-823.3	-823.3
Consolidated Public Sector Deficit	-441.5	-414.6	-697.8	-851.3	-966.6	-1485.1	-1485.2	-1653.5	-807.8	-883.4	-512.0	-2137.0	-817.4	-192.9
Foreign Financing	253.2	101.5	192.6	684.2	951.3	1078.1	886.1	800.6	-415.6	-99.2	16.5	423.5	-377.9	-539.0
Domestic Financing	188.3	313.1	505.2	167.1	15.3	407.0	597.1	852.9	1225.4	982.6	495.6	1715.5	1195.2	731.9
Banking System					478.8	744.5	750.2	1268.5	1499.7	-600.0	-677.0	515.5	-134.0	-605.2
Other	188.3	313.1	505.2	167.1	-463.5	-337.5	-151.1	-415.6	-274.3	1582.6	1172.6	1200.0	1329.2	1337.1

FISCAL ACCOUNTS/GDP (%)

Central Gov't Revenue	27.6	26.5	25.2	28.2	26.9	23.7	27.3	25.2	30.2	30.8	31.2	30.8	31.1	31.2
Divestment Proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	2.0	1.8	0.6	1.1	1.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.0	0.9	0.9	1.7	5.2	2.0	1.4
Central Gov't Current Exp.	30.3	30.6	32.7	32.1	30.3	31.6	28.6	26.0	26.0	25.7	25.7	27.6	25.8	24.3
Central Gov't Cap. Exp.	11.5	8.3	10.0	12.0	10.7	6.7	4.5	4.7	6.4	7.1	7.5	10.6	8.6	7.4
Guaranteed Lending to Private Sector	0.0	0.0	0.0	0.0	0.0	1.2	0.7	0.7	0.3	1.0	1.1	4.3	1.0	0.9
Central Gov't Deficit After Grants	-14.2	-12.4	-17.5	-15.9	-14.1	-15.8	-6.3	-5.3	-1.4	0.0	0.4	-5.8	-1.1	1.7
Oth. Pub. Sector Deficit	2.4	2.7	2.8	0.0	-1.6	-1.9	-2.9	-1.1	1.5	-0.1	1.3	-1.3	1.1	1.0
Bank of Jamaica Losses	0.0	0.0	0.0	0.0	0.0	-1.9	-5.8	-6.9	-5.7	-5.4	-4.5	-4.4	-3.7	-3.5
Consolidated Public Sector Deficit	-11.7	-9.7	-14.7	-15.9	-15.7	-17.6	-15.1	-13.2	-5.6	-5.4	-2.8	-11.5	-3.9	-0.8
Foreign Financing	6.7	2.4	4.1	12.8	15.5	14.2	9.0	6.4	-2.9	-0.6	0.1	2.3	-1.8	-2.3
Domestic Financing	5.0	7.3	10.7	3.1	0.2	5.4	6.1	6.8	8.5	6.0	2.7	9.2	5.7	3.1
Banking System	0.0	0.0	0.0	0.0	7.8	9.8	7.6	10.2	10.4	-3.7	-3.7	2.8	-0.6	-2.6
Other	5.0	7.3	10.7	3.1	-7.5	-4.5	-1.5	-3.3	-1.9	9.7	6.4	6.4	6.3	5.7

ANNEX 1

Best Available Document

Table II-1. JAMAICA: BALANCE OF PAYMENTS, FY 1978-90

(Millions of US$)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Pre-Hur. Proj. 1988	Post-Hur. Proj. 1988	Proj. 1989	Proj. 1990
Current Account	-89.2	-142.6	-166.2	-437.5	-460.6	-278.6	-246.7	-246.1	-73.4	-133.0	-103.1	-234.0	-62.9	-112.0
Trade Balance	-64.5	-179.5	-196.8	-599.2	-657.5	-528.9	-548.1	-494.8	-407.8	-510.0	-535.3	-1145.0	-712.1	-652.0
Exports fob	792.1	814.7	962.7	868.9	734.1	721.8	673.3	539.3	622.6	774.0	871.5	727.0	920.0	968.0
Bauxite/alumina	582.3	561.7	735.7	668.8	472.7	477.2	381.6	283.8	306.6	384.0	421.2	391.2	420.0	421.0
Nontraditional, excluding Caricom						96.3	150.6	142.7	165.1	236.2	275.8	200.6	311.0	346.0
Other						148.3	141.1	112.8	150.9	153.8	174.5	135.2	189.0	201.0
Imports cif	-856.6	-994.0	-1159.5	-1488.1	-1391.6	-1250.7	-1221.4	-1034.1	-1030.4	-1284.0	-1406.8	-1872.0	-1632.1	-1620.0
Tourism (net)	136.4	184.5	228.9	301.3	317.3	360.9	389.2	396.8	503.0	539.8	554.6	422.6	634.0	688.0
Interest payments (net)	-178.6	-202.6	-251.7	-219.3	-250.3	-262.0	-286.8	-308.7	-304.6	-305.6	-300.6	-285.6	-312.0	-322.6
Other Services (net)	-8.2	-25.2	-37.4	-44.6	-20.5	-1.1	52.0	3.6	-12.4	-22.7	-41.0	422.6	109.2	-10.0
Transfers (net)	25.7	80.0	90.8	124.3	150.4	152.5	147.0	155.0	148.3	165.5	189.2	351.0	218.0	187.0
Of which: Official Grants	--	--	--	--	--	--	37.4	36.4	25.8	38.0	59.7	181.5	60.0	60.0
Capital Account	-59.2	-11.4	93.0	481.4	241.1	-169.6	743.9	324.5	128.8	322.2	283.1	321.9	113.3	76.0
Official Medium and Long-term (net)	57.4	12.1	196.6	427.1	314.4	61.6	558.8	215.4	-9.1	140.2	183.5	281.9	33.3	6.0
Inflows						449.6	971.1	674.8	567.1	638.9	654.7	753.1	485.3	407.0
New Money						338.6	436.0	443.0	252.3	418.0	469.3	587.7	424.3	402.0
Rescheduling						110.0	535.1	231.5	314.8	220.9	185.4	165.4	61.0	5.0
Outflows						-388.0	-412.3	-459.4	-576.1	-498.7	-471.2	-471.2	-452.0	-401.0
Official Short-term (net)						--	--	--	--	17.0	--	--	0.0	0.0
Direct Investment	--	--	--	--	--	--	--	20.0	2.3	61.2	34.4	10.0	30.0	30.0
Other Private Capital (net), (including errors and omissions)	116.6	-23.5	-103.6	54.3	-73.3	-231.2	185.1	89.1	133.9	103.8	65.2	30.0	50.0	40.0
Overall Balance	-148.4	-144.0	-63.2	43.0	-220.0	-448.2	497.2	76.4	55.4	189.2	180.0	87.5	50.4	-36.3
Change in Net Reserves (increase -)						306.0	-265.7	-61.9	-55.4	-189.2	-180.0	-180.0	-132.0	-134.0
Assets						27.0	-125.6	-10.1	38.7	-25.5	-12.8	-12.8	-25.0	-30.0
Liabilities						278.0	-140.1	-51.8	-94.1	-163.7	-167.2	-167.2	-107.0	-104.0
IMF (net)						39.0	39.1	-19.4	-87.3	-113.4	-147.2	-147.2	-99.0	-100.0
Arrears						190.0	-113.0	-36.4	-32.6	-1.2	--	--	--	--
Other						50.0	-66.0	6.0	25.8	-49.1	-20.0	-20.0	-8.0	-4.0
Other Arrears						142.2	-231.5	-14.5	--	--	--	--	--	--
Financing Gap											0.0	92.1	81.6	170.0
BOP-Monetary Consistency (Excess Credit +)						--	--	--	--	--	0.0	199.2	56.9	-39.4
Exchange Rate (J$ per US$)	1.44	1.77	1.78	1.78	1.78	2.47	4.36	5.65	5.50	5.50	5.50	5.50	5.50	5.50
Real Effective Exchange Rate (1980=100)	96.0	89.9	100.0	106.5	110.5	75.1	63.9	68.1	68.2	67.5	67.5	69.2	68.2	66.2
Imports/GDP	-0.326	-0.412	-0.436	-0.495	-0.403	-0.408	-0.540	-0.469	-0.392	-0.433	-0.423	-0.552	-0.426	-0.380
EXTERNAL DEBT														
Outstanding	1248.0	1469.0	1524.0	2212.0	2690.0	2920.0	3207.0	3423.0	3474.4	4213.9	4206.2	4485.5	4459.1	4465.1
Outstanding GDP (%)	57.1	68.9	58.0	71.1	73.3	91.3	135.2	169.1	133.1	142.1	126.5	132.3	117.2	104.7
Debt Service ratio	15.7	16.7	17.0	25.9	30.4	25.4	27.4	51.2	48.3	44.9	40.7	40.0	37.7	36.2

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Annex H

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Table 1-1. JAMAICA: SELECTED ECONOMIC INDICATORS, FY 1978-90

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Pre-Hur. Proj. 1988	Post-Hur Proj. 1988	Proj. 1989	Proj. 1990
POPULATION														
Thousands	2088.0	2109.8	2133.0	2162.0	2200.0	2241.0	2280.0	2311.0	2336.0	2365.0	2393.0	2393.0	2419.3	2445.9
Growth Rate	1.2%	1.0%	1.1%	1.4%	1.8%	1.9%	1.7%	1.4%	1.1%	1.2%	1.2%	1.2%	1.1%	1.1%
NATIONAL ACCOUNTS (Millions of J$)														
GDP curr. prices	3763.7	4271.4	4738.2	5350.0	6143.0	7576.5	9856.3	12496.1	14459.0	16307.1	18292.1	18643.0	21066.6	23447.1
GDP 1974 prices	N.A.	1941.2	1837.5	1879.0	1897.7	1930.0	1902.[illegible]	1832.5	1904.0	2008.7	2103.1	2075.0	2168.4	2255.1
Real GDP Growth Rate (%)	N.A.	N.A.	-5.3%	1.9%	1.0%	1.7%	-1.4%	-3.7%	3.9%	5.5%	4.7%	3.3%	4.5%	4.0%
Real Per Capita GDP	N.A.	920.1	861.5	869.1	862.6	861.2	834.6	793.0	815.1	849.4	878.9	867.1	896.3	922.0
Real Per Capital GDP Growth Rate (%)	N.A.	N.A.	-6.4%	0.9%	-0.7%	-0.2%	-3.1%	-5.0%	2.8%	4.2%	3.5%	2.1%	3.4%	2.9%
Gross Domestic Investment/GDP (%)	15.3	19.1	15.6	20.7	20.9	22.2	23.7	27.2	20.3	19.5	18.0		18.3	18.0
Public	8.3	6.3	6.1	6.9	7.5	4.9	3.2	2.7	4.3	8.5	8.5	10.6	8.6	7.4
Private	7.0	12.8	9.4	14.6	13.4	17.3	20.5	24.5	15.9					
Other Fixed	5.1	11.3	8.4	11.5	12.4	15.6	17.9	19.5	14.4					
Inventory change	1.9	1.5	1.0	3.1	1.0	1.7	2.6	5.0	1.5					
Gross National Savings/GDP (%)	13.2	14.4	9.8	9.7	8.7	11.9	10.6	12.4	16.9	13.8				
Government	-4.4	-1.5	-2.7	-1.8	-0.1	-7.1	-3.2	-3.7	-0.6	3.7	5.4	3.3	5.3	6.9
Private	8.4	6.6	3.4	1.9	-0.3	10.1	4.6	6.8	7.9					
Depreciation	9.2	9.2	8.9	9.2	9.2	8.9	9.2	9.3	9.6					
Foreign Savings/GDP (%)	2.1	4.7	5.7	11.1	12.2	10.4	13.0	14.8	3.4	5.7				
PRICES														
GDP Price Deflator (1974=100)	189.5	220.0	257.9	284.7	323.7	392.6	518.0	681.9	759.4	811.8	869.8	898.5	971.5	1039.7
Annual Change (%)	26.1%	16.1%	17.2%	10.4%	13.7%	21.3%	31.9%	31.7%	11.4%	6.9%	7.1%	10.7%	8.1%	7.0%
Consumer Prices (1975=100)	206.9	247.6	319.5	334.2	367.2	444.8	578.7	690.6	743.6	801.6	857.7	887.1	959.3	1026.6
Annual Change (%)	49.5%	19.7%	29.0%	4.6%	8.1%	21.1%	30.1%	17.3%	7.7%	7.8%	7.0%	10.7%	8.1%	7.0%

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