

AID 1120-1 (2-68)		DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO. Loan No. 532-K-018	
PAAD		PROGRAM ASSISTANCE APPROVAL DOCUMENT		2. COUNTRY JAMAICA	
				3. CATEGORY Cash Transfer	
				4. DATE September 10, 1982	
5. TO:		6. OYB CHANGE NO.			
M. Peter McPherson, A/AID		6. OYB INCREASE			
FROM:		TO BE TAKEN FROM:		Economic Support Fund (ESF)	
AA/LAC: Otto J. Reich		10. APPROPRIATION - ALLOTMENT			
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 50,000,000		11. TYPE FUNDING		13. ESTIMATED DELIVERY PERIOD FY 1982	
<input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT		12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE		14. TRANSACTION ELIGIBILITY DATE Date of Authorization	
15. COMMODITIES FINANCED					

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only: \$50,000,000		U.S.: \$50,000,000	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION
The purposes of the \$50 million cash transfer are (1) to provide immediate balance-of-payments support, and (2) to stimulate production, exports and employment. The cash transfer will be disbursed upon receipt of evidence satisfactory to A.I.D. that (1) the loan agreement executed on behalf of the Borrower constitutes a valid and legally binding obligation of the Borrower, and (2) a person(s) has been appointed to act as authorized representative(s) of the Borrower.

The GOJ will agree to allocate foreign exchange to the private sector for the importation of spare parts, capital goods and industrial and agricultural inputs from the U.S. in an amount at least equivalent to the loan over a one-year period. Covenants will be included in the loan agreement which will require (1) use of A.I.D. assistance in a manner which will not cause injury, or the threat thereof, to the production, marketing, or pricing of U.S. agricultural commodities or products; and (2) the implementation of the provisions of Section 203(a) of the draft authorization markup for the FY 1982 supplemental which prescribes requirements relating to the use of funds. Details regarding the implementation of these covenants will be spelled out in a separate side letter.

Loan terms will be 20 years with a 10-year grace period. The loan will carry an interest rate of 2 percent during the grace period and 3 percent thereafter.

19. CLEARANCES			20. ACTION	
LAC/CAR: JHoltaway	DATE		<input checked="" type="checkbox"/> APPROVED	Frank B. [Signature] M. Peter McPherson AUTHORIZED SIGNATURE DATE Sept 24, 1982
LAC/DR: DJohnson	9/21/82		<input type="checkbox"/> DISAPPROVED	
GC/LAC: BVeret	9/21/82			
AA/PPC: JBolton	9/24/82			
GC: CLvanOrman	9/24/82			
M/FM: CChristensen	9/24/82			
ARA/ECP: JPenfold	9/21/82			
			Administrator/AID	
			TITLE	

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24 SEP 1982

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EXECUTIVE SECRETARIAT

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : ES
: AA/PPC, John Bolton *John Bolton*
FROM : AA/LAC, Otto J. Reich *OJ Reich*
SUBJECT : Program Assistance Approved Document (PAAD) Supplement--Jamaica
Production and Employment II Program

Problem: Your approval is required to authorize an additional \$50 million Cash Transfer for Jamaica from funds recently appropriated by Congress for the Caribbean Basin Initiative.

Background: In January and December 1981, the LAC Bureau approved ESF cash transfer loans amounting to \$40.0 million and \$38.0 million, respectively. These loans were designed to help reduce the foreign exchange shortfall in Jamaica and provide additional resources so that the GOJ could embark upon an economic revitalization program which would help replace old factory equipment with new machinery, provide spare parts, and finance capital goods to expand the economy. In so doing, these programs were intended to help move Jamaica from an import substitution to an export oriented economy. In addition to these funds, \$3.0 million in ESF and \$1.0 million in DA grant funds have been provided for the Technical Consultants and Training Project (532-0079) which is being used to meet technical assistance and training needs related to the economic recovery program.

Discussion: The outlook for Jamaican economic recovery has darkened since the submission of the last PAAD in late CY 1981. The goals of the Government of Jamaica three-year economic recovery program now appear to have little chance of being achieved in that period. For example, rather than the balance-of-payments situation improving, the current account deficit has worsened, with the deficit estimated to grow from \$345 million in 1981 to, at a minimum, \$481 million in 1982. Thus, the GOJ continues to face a severe shortage of foreign exchange which will seriously reduce needed imports and impede economic recovery if additional foreign exchange is not provided.

The purpose of this Supplement is the same as that of the previous PAAD, i.e., (1) to provide immediate balance-of-payments support to allow critically needed imports of spare parts, industrial and agricultural inputs and capital goods; and (2) to stimulate production, exports, and employment. The loan agreement will require the GOJ to allocate at least \$50 million to the private sector over a one-year period to import raw materials and essential imports from the U.S. A local currency account in an amount equivalent to the loan will be established in the Bank of Jamaica, and funds will be used for activities mutually agreed upon between the Borrower and A.I.D. Before any local currency is disbursed, a proposed implementation plan will be submitted to AID/W for approval.

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2

Standard conditions precedent to disbursement will be included in the loan agreement as well as a number of specific covenants. In particular, there will be a covenant requiring the GOJ to complete, within six months of initial disbursement, (a) a broad based review of policies, practices, regulations, and laws that constitute Jamaica's foreign trade and exchange regime; (b) a study of factors influencing the attitudes of investors; and (c) a study of the feasibility of combining several agencies currently involved in investment, production, and export promotion. This covenant is intended to help address the negative impact of GOJ policies on the country's economic recovery.

The previous PAADs, as well as this PAAD Supplement, have been designed in conjunction with the IMF Extended Fund Facility (EFF) and IBRD Structural Adjustment Loan (SAL). To date, the GOJ has passed the periodic reviews of the EFF program quite easily, but it is expected that meeting targets in upcoming reviews will become progressively more difficult. Regarding the IBRD SAL, the outcome of recent reviews has been mixed. While a number of new policies required under the SAL have been implemented, actions called for under the program involving the agriculture sector and non-traditional exports have not yet been instituted. Nonetheless, it appears that the GOJ has substantially met the provisions of the IMF EFF and is close to fulfilling the requirements of the IBRD SAL. The Mission is closely monitoring the GOJ's progress toward meeting the targets established under these programs.

The LAC Bureau's Development Assistance Executive Committee reviewed the program supplement and recommended approval on September 15, 1982 subject to certain revisions in the PAAD. Principal among these are: (1) the elimination of the proposed condition precedent regarding the GOJ's compliance with the terms of the IMF EFF and IBRD SAL Agreements and, in its place, the inclusion of a covenant which will require the borrower to remain in substantial compliance with the terms of both agreements; (2) the elimination of the proposed covenant which directed the use of foreign exchange and local currency, supplied and generated by AID's loan, to fund the three studies mentioned above; (3) the inclusion of a covenant outlining the GOJ's obligation to deposit local currency equivalent to the amount of the Cash Transfer; (4) the inclusion of a covenant and side letter which will indicate that funds provided under the draft CBI authorization legislation, including local currency, should not be used in a manner which will cause serious injury to the production, marketing or pricing of U.S. agricultural commodities or products; and (5) the revision of a proposed covenant regarding the use of local currency to indicate that mutual agreement between the GOJ and A.I.D. is to be reached on the programming of local currency generated under the Cash Transfer.

Justification to Congress: Since the funds for the A.I.D. Program were appropriated by Congress for Jamaica in the Caribbean Basin Initiative FY 1982 Supplemental, no further notification of Congress is necessary.

Recommendation: That you sign the attached PAAD facesheet authorizing \$50 million for the Jamaican Production and Employment II Program Supplement.

Attachment:

TAB A - Program Assistance and Approval Document (PAAD)
Supplement - Jamaica Production and Employment II

Clearances:

PPC/PDPR: J Eriksson PA/Archi 9/23
GC: CLvanOrman CLVO 24 Sept

1

Production and Employment Loan II

Addendum: Incremental Cash Transfer FY 82

I. Introduction

This addendum to the FY 82 PAAD for the E.S.F. Cash Transfer (Production and Employment Loan II) sets out the economic justification for the supplementary US\$50 million cash transfer to the Government of Jamaica as part of the Caribbean Basin Initiative.

The addendum provides updated information on the Jamaican economy, the GOJ's progress in implementing its economic programs and justification for the supplemental cash transfer.

The detailed economic analysis contained in the FY 82 PAAD remains substantially relevant and can be referred to for details which need not be repeated here.

II. The Economy - 1981

In the twenty one months since the Seaga Government has held office it has achieved some success in its attempts to halt the sustained decline which afflicted the Jamaican Economy over the 1974-80 period. However, after achieving some dramatic successes in 1981 and early 1982, the economic recovery has recently suffered some serious set-backs which threaten to interrupt its momentum.

In 1981 the economy achieved positive real growth of two percent, however, real GDP was still 20 percent below its 1972 level. The level of unemployment in the economy decreased only marginally from 26.2 percent in October 1980 to 25.6 percent in October 1981. Inflation (as measured by the CPI) which created serious dislocation in the economy after 1977, and which reached a peak rate of 49 percent in 1978, dropped to 4.7 percent on a point to point basis over the period December 1980 to December 1981. The broader GDP deflator indicated an inflation rate of 10 percent for 1981, and some indicators hint that the rate of price inflation may turn up somewhat in 1982.

A number of factors have been put forward to explain the decline in the Jamaican economy between 1973 and 1980. These factors include; a precipitous decline in private investment; a series of external shocks to Jamaica's international payments; the GOJ's apparent miscalculation of the ultimate effects of a levy on bauxite production; a series of deficit budgets financed in large by short-term foreign borrowings and credit from the domestic banking system; and a wave of emigration of professional, managerial and skilled personnel, at first in reaction to, and later contributing to, the further decline of the economy.

By the end of 1981 the combined impact of these factors had been substantially reduced, but the international payments position continued to deteriorate.

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In direct contrast with preceding years when substantial net outflows of private capital took place, in JFY 1981 a net inflow of private capital estimated at over US\$100 million was realised. This reversal in the flow of private capital in all likelihood reflects a revival of investor interest and confidence as a result of the improved investment climate and the rise in the use of no funds import licences. The latter is accommodated by the Government's initiative in decriminalizing the parallel market in foreign exchange. Domestic private investment also showed signs of revival during 1981 when total gross domestic investment grew by 25.9 percent compared to an average increase of 6.0 percent per annum between 1973 and 1980.

The Jamaica National Investment Promotions Ltd. (JNIP) which was established by the GOJ in 1981 to facilitate the process of attracting both foreign and domestic investors to invest in Jamaica, achieved a fair amount of success in its first year of operation. By July 1982, the JNIP has received 348 investment proposals worthy of serious consideration. The total capital investment potential was US\$578.6 million. At mid-July 1982, 64 of these projects with capital investment of US\$54.5 million had been implemented; another 21 proposals were being finalised for implementation (expected capital investment of US\$39.3 million) and other proposals were at various stages of evaluation. Thus there appears to be considerable potential for future investment through this medium, although the realized investment to date does not even off-set recent set-backs in bauxite.

The fiscal operations of the central government have been brought under greater discipline and more effective administration and have showed impressive improvement during JFY 81/82 (April 1 to March 31). Tax revenues of JFY 81/82 are estimated to have increased by 24 percent as a result of improved tax administration and the upturn in economic activity. Current expenditures grew by only eight percent, due to a reduction in subsidies and the overall improvement in the control of government expenditures. The budget deficit (current account) as a result, declined from 7.8 percent of GDP in JFY 80/81 to 3.1 percent in JFY 81/82. The overall budget deficit declined from 17.5 percent of GDP in JFY 80/81 to 15.0 percent in JFY 81/82. Whether this can be sustained, however, is thrown in question by recent wage settlements and other economic developments, many of which are beyond the government's controls.

A great deal of the improvement in the finances of the central government have been generated by the performance targets under the GOJ/IMF Extended Fund Facility. Under this program limits were set on growth in the net domestic assets of the Bank of Jamaica, GOJ short-term borrowing in external financial markets, and the ratio of the overall budget deficit to total GDP. As a result the ability of the BOJ to provide unbacked budget financing to the GOJ was limited, as was the level of GOJ external financing. The government was further constrained by the limit set for the ratio of the budget deficit to total GDP. While the government has thus far managed to stay within the limits and to meet its commitments under the IMF agreement, it has done so with successively smaller margins of safety. It now appears that by the December 1982 review, there is a strong chance that the GOJ will be without a margin of safety.

The external accounts (Balance of Payments) did not improve in 1981, owing largely to the large increase in imports necessary to support the economic recovery program and disappointing export performance. Exports of goods and non-factor services increased by 6.2 percent in nominal terms. The rather subdued growth of export earnings was due to the continued low levels of production of the main export crops, sugar and bananas, and the restrained production and exports of bauxite and alumina in the face of depressed demand in world markets. Earnings from tourism rose impressively during 1981, following efforts made to promote Jamaica as a tourist destination for European and North American tourists, and the change in the Jamaican image abroad. Both commodity exports and tourism, however, are hampered by the apparent over-valuation of the Jamaican dollar.

One very disappointing aspect of the 1981 export performance was the modest gains in non-traditional exports which grew only 11 percent (compared to 19 percent in 1979). Moreover, the bulk of this growth occurred in the Caribbean region instead of the North American market where the potential for expansion was certainly greater, and on which the GOJ's export strategy for the future is heavily concentrated. The continuing sluggishness of the U.S. economy is undoubtedly contributing to this disappointing experience.

The importation of goods and non-factor services increased by approximately 26 percent during 1981 as a result of some liberalization of the foreign exchange and licencing system, marginally increased availability of overseas credit and the GOJ's attempt to release pent-up consumer demand. The latest information available from the Bank of Jamaica indicates a negative trade balance of US\$498.6 million and a current account deficit of US\$345.3 million in 1981.

By 1981 the adjustments which the bauxite companies sought to make following the 1974 imposition of the bauxite levy had been completed. New investments had been channelled to other bauxity producing areas and bauxite production in Jamaica had been cut from 15.17 million tons in 1974 to approximately 11.6 million tons in 1980. However, in the face of the threat of further reduction in production due to the depressed demand world markets, and in order to curtail the continuing loss of markets for Jamaican bauxite, the government decided to amend the levy. The basic levy rate now varies directly with the market price of aluminum. While this change has provided more incentive for production, it has nevertheless lowered foreign exchange earnings of the GOJ pursuant to recent further price softening.

Production

The upward trend in economic activity during 1981 was concentrated mostly in agriculture, construction and service sectors; most other sectors achieved disappointing although somewhat improved performance over the previous five years when most sectors of the economy suffered significant declines in performance.

The value of agricultural production (measured in constant 1974 J\$) grew by 4.2 percent during 1981, and even the export component of agricultural production showed some growth in spite of the continued poor results achieved in banana and sugar production.

The construction sector grew by 2.5 percent during 1981 but most of the activity in the sector was concentrated on residential construction spurred on by high rental rates. Very little construction activity was concentrated in the creation of new productive capacity, for which there would have been an over supply in this early stage of economic recovery.

The service sectors achieved the highest rates of growth during 1981, with financing and insurance services growing by 12 percent, distributive trade by 4.9 percent and real estate and business services by 3.3 percent. The tourism subsector, significantly increased its earnings during 1981 and also achieved some degree of rehabilitation, placing it on a better footing for the future. The electrical and water subsector grew by only 1.3 percent, and especially in the case of electricity, served as a constraint to production during 1981 as a result of the frequency and lengthy duration of power outages which, more often than not, also affected water supplies as the greater part of the islands pumping equipment is electrically driven. This problem has been especially acute in the Kingston area in which much of the islands' industrial activity is concentrated.

The two major sectors which detracted from the strength of the economic recovery in 1981 were the manufacturing and mining and quarrying sectors. While the latter sector achieved a 1.3 percent growth, the former at best achieved zero growth. The bauxite subsector which accounts for over 90 percent of mining and quarrying production was affected by production cut-backs in the second half of the year as a result of declining world demand for aluminum. It now seems certain that bauxite production and earnings will decline further before any improvement is observed.

The manufacturing sector continued to be affected by an inadequate supply of imported raw materials and spare parts, in spite of increased importation of these items during the year. The unavailability of foreign exchange to finance imports, the inefficiency of the import licensing system and the high cost of funds available to manufacturers for the purchase of imports continued to be major constraints operating in the sector. This is symptomatic of the myriad of regulations, controls, restrictions, and bureaucratic ineptitude that plague the entire foreign trade and exchange regime. These problems are targets of conditions of assistance from the IMF and the World Bank, and increasingly of USAID.

GOJ Economic Strategy

The GOJ's strategy for the recovery and future development of the economy has been extensively described in the FY84 CDSS and Project Paper for Production and Employment Loans I and II.

The GOJ's basic strategy is based on the encouragement of the development of the private sector, encouragement of foreign investment, deregulation of the economy and responsible public sector fiscal management. Nevertheless, as unforeseen problems have developed, the government's response has often taken a form that is not compatible with these goals. Disappointing performance has led to government responses, on some occasions, in the form of additional regulations, government acquisition of enterprises, and measures that do not inspire

private sector confidence.

The GOJ is pursuing a two-tiered recovery program. The Three Year Economic Recovery Program (JFY 1981/82 - JFY 1983/84) is attempting to raise the level of economic activity and maximise the use of available productive capacity, with emphasis being placed on an export-oriented program involving the tourism, bauxite/alumina, manufacturing and agricultural sectors. It is now clear that three years will not suffice, the resources expected from bauxite and alumina exports will have to be scaled down, and tourism will have to be given a much higher priority in the consideration of policy reforms.

The main trust of the recovery and development program is represented by the World Bank Structural Adjustment Program and the three-year IMF Extended Fund Facility. Under the IMF program the GOJ is being supported to the extent of SDR 536.0 million over the period 1981/84.

III. The Structural Adjustment Program

The Structural Adjustment Program covers the period 1981/85. The program is expected to achieve structural transformation within key sectors of the Jamaican economy. The main aims of the program are:

- (i) Increasing domestic savings and establishing lending institutions.
- (ii) Improving the investment climate in order to attract private external as well as local capital.
- (iii) Achieving balance of payments equilibrium.
- (iv) Increasing production in key sectors of the economy (agriculture and manufacturing) at the same time creating incentives toward production for exports.

Structural Adjustment Policies and Action Program

Savings and Investment

The GOJ is attempting to put in place policies designed to increase domestic savings. These actions include the elimination of income tax on certain classes of interest income as well as the implementation of programs to increase the current savings of major public sector enterprises and to reduce their dependence on the fiscal budget to meet their annual losses. The GOJ is looking at ways through which the supply of risk capital in the economy can be augmented as a result of measures to be taken to improve the structure of the capital market.

The GOJ is also actively engaged in investment promotion, the main concentration of its efforts being embodied in the newly created Jamaica National Investments Promotions Limited (JNIP). Further action on the part of the GOJ includes its role in coordinating the interaction between the Jamaican business community and that of North American and Western European economies. The GOJ is also in the process of establishing two new financing institutions, the Agricultural Credit Bank and the National Development Bank, which together will provide

98

medium term capital to the agricultural and industrial sectors. These two institutions will not be direct lenders but will merely serve as sources of capital which will be channelled through the commercial banks and community agricultural banks. Other actions designed to promote investment include consideration of the streamlining of the industrial incentives program and the expansion of the agricultural incentive program to include income tax exemption for all agricultural income. While many of these measures are incompatible with increased reliance on the system of private markets and relative prices, they at least reflect a cognizance of the importance of pecunary incentives. Much of USAID/Jamaica's effort at inducing policy reform is aimed at coordinating the development of incentives within the context of price-directed private markets.

Balance of Payments

The balance of payments situation is critical. For 1981 the trade deficit and the current account deficit were US\$498.6 million and US\$345.3 million respectively.

In order to improve this position the GOJ is adopting an export strategy which seeks to circumvent the very unfavorable conditions which currently prevail in the markets for traditional exports (bauxite, sugar, bananas, etc.) In this respect greater dependence will be placed on the expansion of nontraditional exports generated from the agricultural and manufacturing sectors.

The penetration of markets other than the limited CARICOM market is a high priority. Success in these endeavors awaits a complete review and reform of the foreign trade and exchange regime. In the meantime, conditions are becoming so serious that donors may face the choice of abandoning support of GOJ recovery efforts or providing additional immediate assistance of the "bail out" variety.

The Agricultural Sector

The action program to be implemented in the agricultural sector seeks to address land use problems, security of tenure and optimal use of land resources.

Land Use

Soil conservation is of vital importance to the many thousands of small farmers who are located on hillsides and who are affected by soil erosion problems. The action program proposes an evaluation and redesign of the current conservation program and maintenance scheme. The main consideration is to implement a more cost effective program.

The development of water resources is of critical importance both for the performance of the agricultural sector and the quality of life. This is especially important in rural areas. Most rural households do not have adequate domestic water supply, only about 85,000 acres of agricultural lands are irrigated, and even then irrigated lands are poorly organized and managed.

The water resource development issues which are to be addressed are designed to promote the development and efficient use of water as a valuable but scarce economic resource. Specific objectives include:

- (i) Provision of water supply systems for domestic use.
- (ii) Improvement of water management and more efficient utilization of existing irrigation systems.
- (iii) Development of new irrigation schemes for specific high-value crops where the supporting system already exists.
- (iv) Development of sewerage facilities.

External Marketing Organizations

In recent years the production levels of export agricultural crops have declined relatively to the production of domestically consumed crops. Two main causes have been identified. The first relates to the over-valuation of the Jamaican dollar, and the attendant assault on export profitability. Jamaican governments have attempted to cure the resulting shortage of foreign exchange by resort to additional non-market methods of restricting imports. These methods, in effect, restored some incentives to production but only for domestic consumption.

The second cause relates to the difference in the marketing arrangements for export and domestic crops.

The export crops were marketed by the Statutory Commodity boards under monopsonistic conditions with regulated farmgate prices. The domestic crops were marketed through the private marketing system in which flexible farmgate prices prevailed. The result was that farmers were further motivated to produce for the domestic market at the prevailing relative prices.

The GOJ has come to realize that the mode of operation of the external marketing agencies may not be consistent with an export-led economic development strategy. Accordingly, it has taken some measures to curtail the monopsonistic powers of the marketing agencies. Their role in the provision of credit and extension services,

and their involvement in the supply of agricultural inputs is also to be reduced. The disincentive effect of the over-valued currency however, has yet to be addressed. The GOJ has announced that except for sugar and bananas, the external marketing organizations will no longer enjoy monopsonistic powers and that individuals and/or organizations with the required capability can now undertake the export of crops formerly handled exclusively by the external marketing organizations. The internal workings of the agencies themselves are to be studied with the goal of improving efficiency.

Praedial Larceny

The GOJ has launched a program to reduce praedial larceny, a serious cost-increasing problem. New legislation is being formulated which will introduce harsher penalties and provide for increased use of the security forces in rural areas, including the use of a system of agricultural wardens.

Traditional Export Crops

The traditional export crops of sugar and bananas have undergone serious decline in recent years. For sugar, output in 1980 was only 40 percent of that for 1970 and in the case of bananas the volume exported in 1981 was only 16 percent of its 1970 export volume.

The government action plan for the sugar industry includes the breaking up of the unprofitable sugar cooperatives and the sugar lands leased to the sugar factories, some of which are in private ownership. Unprofitable sugar factories are being closed down or turned over to private ownership. The domestic price of sugar has been increased substantially in order to improve the profitability of sugar operations and to serve as an incentive to sugar cane farmers to increase production. These measures may partially compensate for the low, disequilibrium, rate at which foreign exchange earnings must be sold to the Bank of Jamaica. Apart from changes in the ownership structure, the government is attempting to deal with technical production problems in the industry. Emphasis is being placed on achieving improvements in three areas: field operations, including transportation and farm equipment; factory operations; and personnel.

The action program for the banana industry is in support of the objective of raising the level of banana exports to 150,000 tons per year. The action plan includes steps being taken to increase the supply of basic farm inputs, increased quantity and quality of extension services, better disease control, diversion of banana out of the domestic to the export market, the marketing of rejects in the domestic market, and the expansion of banana plantations. Beyond these measures, the quasi-governmental Banana Company has been significantly re-organized. A principal goal of the Banana Company is to become sufficiently efficient to compete effectively on world markets without subsidies.

Agricultural Sector Institutions

The GOJ has recognized the need to strengthen and reorganize its agricultural planning unit. There is an outstanding need for a channel for the transference of knowledge and information to farmers, better support for field extension agents, merger of extension services in the sector under the Ministry of Agriculture, and the same for the specialized research facilities for bananas, coffee, cocoa and sugar cane.

Agricultural Credit

The availability of credit to the agricultural sector continues as a serious problem within the sector. Experience has shown that borrowers tend to treat public sector credit as non-reimbursable and most credit schemes in the sector have failed as a result of poor loan administration.

The GOJ is attempting to shift toward less involvement for the public sector in the provision of agricultural credit. To this end it has established the Agriculture Credit Bank and the National Development Bank, institutions which will channel capital resources into the agricultural sector through commercial banks.

The Manufacturing Sector

The main constraints operating in the manufacturing sector and which the GOJ is attempting to alleviate under its Structural Adjustment Program are:

- (a) The lack of medium term credit to the sector.
- (b) The unavailability of sufficient foreign exchange resources to finance the imports of raw materials, spare parts and equipment.
- (c) Anti-export bias inherent in the sector.
- (d) Defficiencies, particularly in the Kingston area, in the water and electricity systems.

The GOJ has taken steps to alleviate some of these constraints and in the case of others, either a phased program of corrective actions is being put in place and/or studies are being undertaken to seek out an optimal approach. While the measures taken to date are not sufficient to bring efficiency to the manufacturing sector, they are, in our view, clearly necessary.

Medium Term Credit

The government in order to relax the medium term credit constraint is in the process of establishing a national development bank for the purpose of channelling medium term financing to the sector via the commercial banking system.

Foreign Exchange

In order to relax the foreign exchange constraint, the GOJ, with the assistance of the World Bank and the IDB, has established the Export Development Fund in order to assure the availability of foreign exchange resources to finance the import of requirements of exporters in the manufacturing sector. Specific proposals for increasing the role of private markets in foreign exchange are also under consideration, but meet persistent resistance from the GOJ. There are indications, however, that the resistance may be softening under persistent pressure from foreign assistance donors and a seriously deteriorating balance of payments outlook.

Anti-Export Bias

To offset the present anti-export bias in the manufacturing sector, the GOJ is considering a reform of the system of protection. In order to do so, it is planning for the elimination of quantitative restrictions on a phase basis over a five-year period, 1982 to 1987. In the short term an action program for the promotion of non-traditional exports is being activated. This program includes measures to increase the availability of foreign exchange to exporters, the provision of fiscal incentives to exports outside the CARICOM market, and modification to existing export financing schemes. Foreign exchange management practices are also in need of review and revision.

IV. The Extended Fund Facility Program

The GOJ in March 1982 completed the initial year under the new IMF Extended Fund Facility Program. During this period the GOJ made total drawdowns of US\$231.5 million and comfortably met the periodic performance tests which had been agreed on, for the GOJ to qualify for incremental drawdowns.

The performance criteria were:

- (i) Limits on the growth of the net Domestic Assets of the GOJ, over JFY 81/82.
- (ii) Limits on net domestic credit by the BOJ and the commercial banks to the public sector during JFY 81/82 (J\$160.0 million).
- (iii) The net international reserves of the BOJ during FY 82/83 to increase by US\$40.0 million.
- (iv) Limits on the level of public sector borrowing in external capital markets; US\$60.0 million in respect of maturities of one to five years and US\$120.0 million for maturities five to twelve years.

The second year of three years IMF/GOJ Extended Fund program got underway in March of this year. The performance criteria are basically the same as in the initial year of the program, except that the "net domestic credit" performance criterion has been amended to include credit from the entire banking system and not just credit extended by the Bank of Jamaica and the commercial banks.

There are basically four performance criteria attached to the FY 1982/83 program:

- (i) Net domestic assets of the BOJ to decline by no less than J\$47.0 million over JFY 82/83.
- (ii) Net domestic credit to the public sector to increase by no more than J\$230.0 million over JFY 82/83.
- (iii) Net foreign assets of the BOJ to increase by at least US\$12.0 million over JFY 82/83.
- (iv) Foreign borrowings by the public sector during JFY 82/83 to be limited to US\$120.0 million excluding approximately US\$52.0 million allowed for the purchase of new aircraft for Air Jamaica.

107

V. Progress Towards the Implementation

World Bank Structural Adjustment Loan (SAL)

The implementation of the Structural Adjustment Program has been problematic and the progress being made cannot be easily measured. Apart from policy actions which form part of the Structural Adjustment Program and which were measures which the GOJ was already pursuing, few of the Structural Adjustment policies have been implemented. Those aspects of the Structural Adjustment Program which represent major departures in policy are only so far the subject of studies, the result of which will indicate the nature and extent of the adjustment measures to be imposed.

The World Bank has recently carried out a review of the GOJ's progress in the implementation of the SAL and its reaction appears to be mixed. Satisfactory progress is being made in some aspects of the program within the manufacturing sector. Studies have been completed in determining the price competitiveness of the seven industries which have been chosen as having the greatest potential for exports. The GOJ is expected to prepare shortly an export program for these industries. The GOJ will however be in a position to effect the removal of quantitative restrictions from the most competitive industries by January 1983.

The action program for the promotion of savings and investment is making progress, but a broad mechanism for the encouragement of private savings is substantially missing. In order to encourage savings within the public sector, the major public sector entities, including Air Jamaica, Jamintel, Jamaica Telephone Company, Jamaica Public Service Company and the National Water Commission are all working along with prepared programs designed to reduce annual losses in some and to raise profits in others.

Progress toward measures to improve the balance of payments position has been less than satisfactory. The major action program required here was for the GOJ to undertake the expansion of non-traditional exports generated by the agricultural and manufacturing sectors. The GOJ has only recently prepared such a program for presentation to the World Bank. This component of the SAL is of paramount importance and in 1982 the export performance of the economy has deteriorated. The GOJ has so far failed to put in adequate incentives to overcome the anti-export bias inherent in the Jamaican economic structure.

In the agricultural sector, the GOJ is making satisfactory progress in implementing the SAL action programs. Most of these programs are already part of the GOJ's program for the agricultural sector. The GOJ has not completed the implementation of actions within the banana and sugar industries. In the case of the latter, price increases which were previously agreed to have been abandoned as a result of the negative effect which a previous price increase generated in the manufacturing sector. Instead, the GOJ has presented to the World Bank an alternative program for reducing costs within the industry.

IMF Extended Fund Facility

The IMF Extended Fund Facility program with the GOJ is now in its second year and the GOJ/BOJ have managed to pass the periodic reviews quite comfortably during the first year of the program. The second program is now in progress. So far two reviews have taken place under that program, and the results have been favorable. However it is expected that for the upcoming reviews meeting the targets will become progressively more difficult. This is especially the case with the net foreign assets tests, given the generally poor export performance in 1982 to date, and the worsening situation in the bauxite industry.

VI. The Need for a Supplemental Cash Transfer

In spite of the improvements which have occurred in the Jamaican economy during 1981 and 1982, the conditions which prompted the need for extending ESF financing to Jamaica, beginning in US FY81 and continuing in FY82, are still in existence. In fact, the need for further ESF-type assistance is critical at this point if the gains which have been made over the past twenty-one months are not to be reversed.

The Balance of Payments

Unlike other key, real and monetary variables in the Jamaican economy, the balance of payments position did not improve during calendar year 1981. Rather, it deteriorated largely as a result of the effort made to increase the importation of goods and services needed to support the recovery effort during 1981. The current account deficit in 1981 was US\$345.3 million, and projections made even before estimation of the full effect of recent developments in the bauxite sector on the balance of payments, indicated a worsening of the deficit in 1982. The US\$480.9 million deficit being projected must now be interpreted as a minimum. Before the latest announcements (9/8/82) by Kaiser of their cutback in aluminium production in their U.S. plant, a move which will have direct impact on Jamaican bauxite production, the production of bauxite/alumina in Jamaica was expected to be cut by 22.5 percent in 1982 resulting in reduction of approximately US\$40.0 million in earnings from the bauxite levy below 1981 earnings.

For the first six months of 1982, preliminary trade statistics indicate that exports fell by 39 percent below exports for the same period in 1981. Imports on the other hand increased by 12.0 percent. The half-year trade deficit was US\$256.0 million compared to US\$194.3 million in 1981.

The very modest rise in imports of raw materials and machinery and spare parts in the first six months of 1982 does not lend itself to a great deal of optimism for the export performance of the manufacturing sector in 1982. This fall in the importation of essential manufacturing inputs reflects the unavailability of foreign exchange and the slow pace of the approval of import licence applications. Although toward the end of the second quarter, the manufacturing sector is marginally better off in terms of its ability to import productive inputs, financing terms are so unfavorable, lead times so long, and the quantity of imports allowed so inadequate, that production and exports will not pick up in time to substantially improve the prospects for 1982.

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It is therefore expected that the foreign exchange cash flow will come under extreme pressure during the last quarter of 1982. The situation could be eased if the trend in private capital flows should continue, but at this point optimistic expectations in this direction could be seriously misplaced given the persistent problems with electricity and water in some areas, particularly the Kingston area, which appear to have a serious impact on the intentions of private investors to invest in Jamaica. As a result the flow of net private capital into the economy could be drastically reduced after showing very promising signs of revival in 1981.

Net public capital inflows which were being projected at US\$513.0 million for 1982 could also be reduced as at this point indications are that some of these promised disbursements may not be realised in 1982. In all candor, it must also be recognized that the on-again off-again uncertainty of prospects for the CBI has hampered the GOJ's planning, and made them reluctant to license imports of essential raw materials, spare parts, and equipment.

Given that there are not many short-term actions which the GOJ can take to offset the negative trends in its foreign exchange cash flow, short of reducing imports and further reducing the productive capacity of the economy, and given that it will not be able within a short period of time to realise incremental foreign exchange assistance from other sources, the US\$50.0 million from the ESF will enhance the foreign exchange cash flow of the BOJ at this critical point. This in turn will allow the GOJ the type of maneuverability needed to maintain the momentum of an economic recovery which could be easily reversed, and could also enable it to remain within the conditions of its extended fund facility program with the IMF.

VII. Summary and Conclusion

In the foregoing sections we have endeavoured to present a candid appraisal of economic developments since the submission of the FY 1982 PAAD. In general, it is fair to say that the outlook for Jamaican economic recovery has darkened considerably. The goals of the Government's three year recovery program have little chance of being achieved in that period. There is no single, simple cause to which the economic deterioration can be attributed. Unquestionably, events of external origin have had significant damaging effects. The continuing decline of the bauxite market and the intransigent sluggishness of the developed economies head the list of adverse events in this category. There have also been developments, however, for which the government itself must accept at least partial responsibility. These developments, in the Mission's view, reflect a basic mistrust of the notion that private market mechanisms are capable of generating results that are consistent with the goal of achieving an acceleration of broadly based real economic growth. The core of this mistrust seems to be a lack of understanding of the role and the determinants of prices in the incentives system of private markets.

The exogenous shocks are beyond our control as well as the Governments. By nature, they are unpredictable, and it is clearly appropriate for foreign assistance donors to attempt to moderate the damage they inflict.

The set-backs that are attributable all or in part to public policy are another matter. If the judgement is made that the Government is unwilling or unable to amend its policy positions, a policy decision must be made as to whether or not to continue economic assistance. In the case of Jamaica, it is the Mission's view that the Government is genuinely committed to the goals it espouses. In recent months, however, it has been confronted by a series of problems which, in the Government's view, called for immediate action. The urgency of the moment has diverted the attention of GOJ economic officials from the longer-term goals of economic growth and structural change. However, many of the actions taken on immediate problems have been inimical to the long-term goals.

As indicated above, we believe that Jamaica can realize the economic goals set forth in the economic recovery program. The time required however will be greater than was originally thought. In dealing with the Government, a combination of vigorous education and stringent conditions of assistance will be required over the next three years. As indicated in previous communications and consultations, USAID Jamaica proposes to employ those means to press for dramatic and sweeping policy reforms.

At this moment, we are convinced that the Government is faced with such severe economic pressures, that there is a real danger of reversal of Jamaica's early economic recovery thrust. By coming to the Government's assistance quickly, we can simultaneously demonstrate the continuing U.S. support for Jamaica, and position ourselves favorably to intensify our proposed emphasis on conditionality for next year's program. Accordingly, we propose certain additional, time-limited covenants for this \$50 million CBI supplemental that are limited in

number, simple but broad in scope. These covenants, relating to the studies of the foreign trade and exchange regime and of investor attitudes, for example, are intended to yield specific policy-reform proposals that cover the entire range of foreign sector policy issues, and issues dealing with incentives to private sector investment. These covenants have been the subject of preliminary discussions with the GOJ.

The resulting proposals, in turn, are expected to provide the agenda for a dialogue on tough new conditions precedent and covenants for future assistance. Thus while the covenants proposed for the present loan are broad, they are quite serious in intent, and are directly relevant to the proposed tightening of future conditions.

A. Recommendation

In concluding it must be recognized that one of the difficult exogenous situations that has complicated the Government's ability to plan in accordance with IMF and World Bank performance targets, has been uncertainty with respect to U.S. assistance. The CBI and the possible GSA stockpile purchase are crucial to performance over the next six months. For this reason as well as those summarized above, USAID/Jamaica urges prompt approval of the proposed \$50 million supplementary cash transfer loan.

B.

CONDITIONS AND COVENANTS:

(1) Lending Terms and Interest Rate - The Borrower will repay the loan to A.I.D. in U.S. dollars within twenty (20) years from the date of first disbursement including a grace period of not to exceed ten (10) years. The Borrower will pay interest at the rate of 2% per annum during the grace period and 3% thereafter. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six months after first disbursement of the loan.

(2) Repayment - The Borrower will repay the principal within twenty (20) years from the date of first loan disbursement hereunder in approximately equal semiannual installments of principal and interest. The first installment of principal shall be payable nine and one-half years after the date on which the first interest payment is due.

(3) Conditions Precedent to Initial Loan Disbursement - Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

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

(b) A statement signed by the GOJ official signing the loan agreement appointing a named person or persons to act as authorized representative(s) of the Borrower for purpose of implementing the loan and representing and warranting that such persons have authority to so act, together with a specimen signature of each person certified as to its authenticity.

(c) Documentation that the Borrower is in substantial compliance with the terms of the IMF Extended Fund Facility Agreement and the IBRD Structural Adjustment Loan.

(4) COVENANTS:

The Borrower will covenant to the effect that:

(a) During the twelve months following the initial disbursement of A.I.D. loan funds provided under this supplemental appropriation, it will allocate to the private sector at least US\$50 million for importation from the United States

of spare parts, capital goods and agricultural and industrial inputs, excluding defense items, luxury goods, food and pesticides restricted by the U.S. Environmental Protection Agency.

(b) Local currencies generated under this loan will be used to support development projects in the areas of agriculture and nutrition, population planning, health delivery, education and human resource development, energy, urban development and other selected development activities, as well as such activities mutually agreed upon between the Borrower and A.I.D. under the Trust Fund Agreement, and financing of the studies described in para (c) below.

(c) It will complete, within six months of the initial disbursement of A.I.D. funds provided under this loan, the following studies:

- (i) A broad based review of policies, practices, regulations and laws that constitute Jamaica's foreign trade and exchange regime. The purpose of this review will be to identify and propose reforms needed to incorporate the foreign sector into the developing system of integrated private markets.
- (ii) An extensive research study on factors influencing the attitudes of domestic and foreign investors in their consideration of long-term investment in productive activities in Jamaica.
- (iii) An investigation of the feasibility of combining the several government agencies currently involved in investment, production and export promotion into a single, national coordinating entity, whose purpose would be to promote, facilitate and support foreign and domestic private investment.

(d) It will finance both the foreign exchange and local currency costs of the studies agreed upon in item (c) (i-iii) above from funds made available under this loan.

(5) WAIVERS: No waivers are required.

AIO 1120-1 (6-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAG NO.	
		2. COUNTRY JAMAICA	
		3. CATEGORY CASH TRANSFER AND PROGRAM GRANT	
		4. DATE SEPTEMBER , 1981	
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	5. TOI	
ADMINISTRATOR		6. OVS CHANGE NO.	
7. FROM: AA/LAC		8. OVS INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$40,000,000 Loan, \$3,000,000 Grant		10. APPROPRIATION - ALLOTMENT ECONOMIC SUPPORT FUND (ESF)	
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	13. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. ESTIMATED DELIVERY PERIOD FY 82	14. TRANSACTION ELIGIBILITY DATE Date of Approval
10. COMMODITIES FINANCED			

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: \$40,000,000 Loan	U.S.: \$40,000,000 Loan, \$3,000,000
Limited F.W.: 0	Industrialized Countries:
Free World: 0	Local: 0
Cash: 0	Other: 0
U.S. and Local \$3,000,000 Grant	

18. SUMMARY DESCRIPTION

The purposes of the \$40 million cash transfer are (1) to provide immediate balance of payments support to allow critically needed imports of spare parts, industrial and agricultural inputs, and capital goods; and (2) to stimulate production, exports and employment.

A local currency account in an amount equivalent to the loan will be established at the Bank of Jamaica and will be used to support mutually agreed upon development programs within the GOJ's budget.

The GOJ shall agree to import from the United States within one year from the date of disbursement goods and services for use in its economic recovery program in an amount at least equivalent to \$40 million.

The \$3,000,000 Grant will be separately obligated and used to augment the program initiated in FY 81 under the Technical Consultations and Training Grant to support Jamaica's economic recovery through the promotion of economically productive activity, investment, exports and skills training.

19. CLEARANCES	DATE	20. ACTION
REG/DP	_____	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC	_____	
AA/PC	_____	
A/CONT	_____	
AA/MR	_____	
AA/DFPE	_____	
		AUTHORIZED SIGNATURE _____ DATE _____
		TITLE _____

CLASSIFICATION:

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TABLE OF CONTENTS

	<u>Page</u>
I. <u>SUMMARY AND RECOMMENDATIONS</u>	1
A. Recommendation	1
B. Summary Justification	1
C. Summary Conditions and Covenants	2
II. <u>BACKGROUND ON JAMAICA'S RECENT ECONOMIC PERFORMANCE</u>	4
A. Seven Years of Decline	4
B. Causes of the Decline	4
C. Production and Employment	5
D. Government Revenue and Expenditure	9
E. Money Supply and Inflation	9
F. Debt Service	11
G. Balance of Payments	11
III. <u>POLICIES OF THE GOVERNMENT OF JAMAICA AND CURRENT OUTLOOK</u>	14
A. Strategy for Recovery and Development	14
B. Progress in Implementation	14
IV. <u>PROPOSED U.S. ASSISTANCE</u>	26
A. Urgency of Need	26
B. Objectives	26
C. Proposed Level of U.S. FY 1982 Assistance	27
V. <u>THE PROGRAM</u>	31
A. Foreign Exchange and Local Currency Programs	31
1. Foreign Exchange	31
2. Program Grant	34
B. Implementation Arrangements	38

ANNEXES

- A. Statutory Checklist
- B. Kingston 7417
- C. Allocation of Counterpart:
 - 1. FY 77 CIP and FY 77-80 PL 480 Loans
 - 2. FY 81 PL 480 Loan
 - 3. FY 81 Production and Employment Loan I
- D. Utilization of FY 81 Production and Employment Loan I (Imports from U.S.)

I. SUMMARY AND RECOMMENDATIONS

(A) Recommendation

It is recommended that the Administrator of AID authorize a loan from the Economic Support Fund of \$40 million to provide balance of payments, assistance to the Government of Jamaica (GOJ) and a grant of \$3 million to the GOJ to assist in financing technical assistance, consultations, and other activities to alleviate constraints to Jamaica's economic recovery.

(B) Summary Justification

The GOJ is faced with an enormous balance of payments gap. It is currently implementing the Extended Fund Facility (EFF) Agreement with the I.M.F. Under this Agreement the GOJ is following an economic recovery program biased toward development of the private sector, while the IMF is providing assistance to help in the financing of the balance of payments gap. Despite the best efforts of the Government, it is beginning to appear that the IMF target for net foreign assets will not be met. The GOJ is totally committed to the program of economic recovery but is constrained by the lack of foreign exchange resources needed to purchase essential raw materials and capital goods and to service its large external debt. The recovery program is also being hampered by a shortage of personnel and limited institutional capability in strategic areas of the economy.

The proposed AID program will help to relax the balance of payments constraint and also those elements of the personnel and institutional constraints which are responsive to short-term intervention. In addition, PL 480 Title I will be structured to encourage the GOS to carry out significant policy adjustment in Jamaica's agricultural sector and promote production.

The Mission and LAC Bureau have determined that non-project assistance is the most appropriate AID mechanism to address the balance of payments problem and to respond quickly to the urgent need for foreign exchange. A cash transfer is recommended because of the need to accelerate disbursements and provide immediate imports. The serious economic circumstances facing the new government necessitate a rapid disbursement of U.S. dollars which can best be provided using the cash transfer mechanism.

Upon receipt of U.S. dollars disbursed under the loan, the GOJ will deposit the Jamaican currency equivalent (approximately J\$71.1 million) in a special account in the Bank of Jamaica. As in the case of counterpart funds generated under the FY 81 cash transfer loan, the funds in the special account will be used to pay local costs of selected development projects and activities. Disbursements will not be additive to the GOJ budget and not increase the deficit. The single possible exception to this is the J\$10 million of counterpart which may be set aside for local cost support of a GOJ public sector technical assistance program. As further explained in Part V, such a program would assist particular organizations which have critical roles in Jamaica's economic recovery, e.g., the Trade Administrator's Office, the National Industrial Development Bank, etc., but lack the expertise and skilled personnel needed for the job. It would also place special emphasis on counteracting Jamaica's brain drain of the past decade by recruiting professional and skilled Jamaicans who have emigrated.

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The direct US\$3 million grant element of the program will be separately obligated to augment and support principally the foreign exchange costs of the types of activities carried out under the Technical Consultations and Training Grant (532-0079). It will provide essential foreign expertise and consultations with emphasis on investment, exports and employment. Additional funding for the Grant was requested in Kingston 7417 of September 9, 1981, (attached as Annex B) which sets out the critical needs met by the Grant and the very highest priority which it is accorded by the Mission. Additional analysis, background and rationale are contained in the Project Paper approved in May 1981. The Mission looks to these documents, the Project Paper and Kingston 7417, as setting forth the plan and justification for the Grant. After several months experience with the Grant and further analysis, the Mission has concluded that this very flexible and broad activity is not "project specific" and is most appropriately dealt with as program assistance.

(C) Summary Conditions and Covenants:

(1) Loan Component

(a) Lending Terms and Interest Rate - The Borrower will repay the loan to A.I.D. in U.S. dollars within twenty (20) years from the date of first disbursement including a grace period of not to exceed ten (10) years. The Borrower will pay interest at the rate of 2% per annum during the grace period and 3% thereafter. Interest shall be payable semiannually. The first payment of interest shall be due and payable no later than six months after first disbursement of the loan.

(b) Repayment - The Borrower will repay the principal within twenty (20) years from the date of first loan disbursement hereunder in approximately equal semiannual installments of principal and interest. The first instalment of principal shall be payable nine and one-half years after the date on which the first interest payment is due.

(c) Conditions Precedent to Initial Loan Disbursement - Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

--- An opinion by the Attorney General of the Borrower, or other counsel satisfactory to A.I.D., stating that the loan agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

--- A statement signed by the GOJ official signing the loan agreement appointing a named person or persons to act as authorized representative(s) of the Borrower for purpose of implementing the loan and representing and warranting that such persons have authority to so act, together with a specimen signature of each person certified as to its authenticity.

--- All reports due to AID at that time under the first Production and Employment Loan (532-R-014) and a report on the U.S. goods and services imported thereunder.

(d) Conditions Precedent to Subsequent Loan Disbursement - Prior to disbursement under the loan, or to the issuance by AID of documentation pursuant to which disbursement will be made, in excess of \$5,000,000, the Borrower will, except as AID may otherwise agree in writing, furnish or cause to be furnished to AID, in form and substance satisfactory to AID, evidence that the Borrower has reached agreement with the IBRD on the terms of the proposed Structural Adjustment Loan and is meeting the conditions related to its economic recovery as contained in its agreements with the IMF.

(e) Covenants

— The borrower will covenant to the effect that, during the year following the initial disbursement of AID loan funds, Jamaica will import from the U.S. at least US\$ 40 million of goods and/or services, excluding defense items, consumer goods and food and will submit the list to AID.

— The Borrower will covenant to the effect that it will deposit in a special account at the Bank of Jamaica counterpart funds in Jamaican currency equivalent to the U.S. dollars disbursed under the loan, that the deposit will be made immediately upon the disbursement of the U.S. dollars and that the counterpart funds in the special account will be used to support development projects as specified in an expenditure document negotiated and signed by the Borrower and AID for support of Development Projects and such other purposes as may be specified in implementation letters.

(f) Waivers

No waivers are required.

(1) Grant Component

(a) Conditions Precedent to Initial Grant Disbursement

First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by AID of documentation pursuant to which disbursement will be made, the GOJ will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

— An opinion by the Attorney General or other counsel acceptable to AID that the grant agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

— A statement signed by the GOJ official signing the grant agreement appointing a named person or persons to act as authorized representative (s) of the GOJ for purposes of implementing the grant and representing and warranting that such persons have authority to so act, together with a specimen signature of each person certified as to its authenticity.

(b) Additional Condition to Disbursement. Prior to disbursement under the Grant for individual activities or to the issuance by AID of any commitment documents with respect thereto, the Grantee, except as AID may otherwise agree in writing, shall obtain written approval by AID of the respective activity and such procurement procedures and contracting documentation as AID may specify in writing.

(c) Waivers. No waivers are required.

II. BACKGROUND ON JAMAICA'S RECENT ECONOMIC PERFORMANCE

A. Seven Years of Decline: From 1974 through 1980, Jamaica experienced seven consecutive years of economic decline, the longest continuous drop in GDP of any country in the world. Over that period, GDP, measured in constant 1974 Jamaican dollars, declined a total of 14.8 percent, while real per capita income declined by more than 22 percent. Added to this decline in production and real incomes was a large increase in unemployment. As of November 1980, 26.8 percent of the labor force in Jamaica was unemployed, 5 percentage points higher than the level which existed in October 1973.

B. Causes of the Decline: Behind this decline were essentially five factors: a precipitous decline in private investment, a series of unexpected shocks to Jamaica's external account, the GOJ's miscalculation as to the ultimate effects of a levy on bauxite production, a series of deficit budgets financed in large part by short-term foreign borrowings and unbacked credit from the domestic banking system, and a wave of emigration of professional, managerial and skilled personnel at first in reaction to but which later contributed to the further decline of the economy.

Until its decline in the mid-seventies, foreign private investment has effectively carried the Jamaican economy, offsetting large current account deficits that (as a percentage of GDP) exceeded the current account deficits of recent years. Beginning in the early seventies, however, a decline in investor confidence in the future of Jamaica and an exhaustion of opportunities in the two major sectors, bauxite mining and tourism, which had absorbed the largest portion of foreign investment funds, combined to reduce autonomous capital inflows to the point where they could no longer cover Jamaica's current account deficits.

These current account deficits, moreover, were aggravated by two unexpected shocks. First was the rapid rise in oil prices after 1973. Between 1974 and 1980, Jamaica's oil payments rose from US\$195 million to US\$470 million (39 percent of total imports). Second was an unanticipated decline in tourism receipts, which followed unfavorable publicity regarding Jamaica in several of Jamaica's major tourism markets.

The government's miscalculation as to the effects of a several fold increase in the levy of bauxite production was the third factor in the decline. While the GOJ had expected the producer companies to accept the levy without serious complaint, the producer companies in fact resisted strongly, cutting production in Jamaica and directing all new investments to other bauxite producing countries. On the plus side, the GOJ did obtain increased revenues as a result of the levy increase.

The fourth factor was the government's attempts to maintain employment and real incomes in the face of declining production through large government expenditure programs financed in part by short-term foreign borrowings and unbacked domestic credit - a strategy which eventually produced two additional burdens for the external account - an exaggerated demand for imports and steadily mounting debt service payments.

The fifth factor contributing to the decline was the abnormal emigration of professional, managerial and skilled personnel, leaving all sectors of the Jamaican economy seriously depleted of talented and experienced human resources, which were already in relatively short supply before the wave of emigration started. The end result has been to render many public institutions almost non-functional and private organizations without the calibre of manpower required to undertake the type of activities needed to maintain a drive towards recovery of the Jamaican economy.

C. Production and Employment: This loss and waste of economic assets eventually produced major declines in production and employment throughout the economy. In mining, the decline in demand for aluminum during the recession of 1975 and the decision by major producer companies to seek new sources of supply outside of Jamaica led to a decline of almost 40 percent in bauxite mined between 1974 and 1976. Thereafter, a slow recovery in the world market for aluminum and a downward adjustment in the bauxite levy produced a slow and incomplete recovery. In 1980 real GDP in mining was still 16.7 percent below its 1974 level. In manufacturing, a lack of foreign exchange to fund necessary capital goods and raw material imports, the emigration of trained management and technical personnel, and a declining domestic market for manufactures led to a 29 percent decline in real manufacturing product between 1974 and 1980. In construction, a 59 percent decline in the real value of new investment between 1974 and 1980 produced a parallel 55 percent decline in the real value of new construction. In the services sector, GDP declined very little overall, because of a large increase in expenditure on public administration, where employment increased by more than one-third. Tourism, the other major portion of the services account, however, followed a very uneven course through 1977, 1978, and 1979, and then declining again in 1980 as unfavorable publicity emanating from the island's violent election campaign that year took its toll. In agriculture, a rapid expansion in domestic food crops at first offset declines in export crops, producing an overall 15 percent increase in real agricultural produce between 1974 and 1978. Thereafter, floods, labor problems, and shortages of imported fertilizers and pesticides restricted production, reducing agricultural product in 1980 once again to 1974's level.

(See Table I: Jamaica - Sectoral Origin of GDP in Constant Prices, 1974-80; and Table II: Employed Labor Force by Sector and Unemployment Rate, 1974-80.)

TABLE I
JAMAICA - SECTORAL ORIGIN OF GDP IN CONSTANT PRICES, 1974-1980

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
	(In millions of Jamaican dollars at 1974 prices)						
<u>GDP At Market Prices</u>	2170	2155	2026	1987	1982	1953	1848
Agriculture and Fisheries	162	165	166	171	187	166	162
Mining	197	155	125	147	150	148	164
Manufacturing	387	396	377	350	333	315	276
Construction and installation	214	211	169	134	138	137	96
Electricity, gas, and water	22	23	24	23	24	23	24
Services	1188	1205	1165	1162	1150	1164	1126
	(As per cent of total)						
Agriculture	7.4	7.7	8.2	8.6	9.4	9.5	8.8
Mining	9.1	7.2	6.2	7.4	7.6	7.6	9.9
Manufacturing	17.9	18.4	18.6	17.6	16.8	16.1	14.9
Construction and installation	9.9	9.8	8.3	6.7	7.0	7.0	5.2
Electricity, gas, and water	1.0	1.0	1.2	1.1	1.2	1.2	1.2
Services	54.7	55.9	57.5	58.5	58.0	59.6	60.9

Source: Department of Statistics and National Planning Agency

TABLE II

JAMAICA - EMPLOYED LABOR FORCE BY SECTOR AND UNEMPLOYMENT RATE
1974-1980

	1974	1975	1976	1977	1978	1979	1980
Agriculture, mining & refining <u>a/</u>	229.7	241.4	246.3	255.8	258.0	221.8	280.1
Manufacture	81.1	72.7	75.0	74.9	78.2	71.9	80.0
Construction & installation	41.6	43.8	36.3	32.1	35.0	26.5	26.1
Transport, communications & public utilities	25.5	31.2	32.4	31.4	30.8	29.7	34.8
Commerce	75.5	81.1	84.6	90.1	91.5	90.8	92.7
Public Administration	83.2	96.1	106.7	111.8	103.2	109.4	110.5
Other Services)			94.0	98.5	99.5	105.0	110.1
Industry not specified))	114.0	118.0					
			3.8	4.5	5.9	8.3	2.7
Total labor force employed	650.6	684.3	679.1	699.2	702.1	663.4	737.3
Total unemployed	169.5	181.3	216.4	218.7	247.1	299.1	269.6
Total labor force	820.1	865.6	895.5	917.9	949.2	962.5	1006.9
Rate of unemployment (%)	20.7	20.9	24.2	23.8	26.0	31.3	26.8

a/ Other group includes forestry and fishing, and quarrying.

Source: Department of Statistics

TABLE III

JAMAICA - OPERATIONS OF THE CENTRAL GOVERNMENT, FY1973/74--FY1980/81
(In Millions of Jamaican Dollars)

	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81
TOTAL REVENUE	347.7	517.5	640.7	606.7	652.2	1037.3	1118.0	1375
Tax Revenue	322.2	394.5	477.5	484.8	487.9	737.4	832.0	924
Non-tax Revenue	24.7	34.0	36.9	40.3	42.5	30.1	53.0	41
Bauxite Levy a/	-	85.0	125.0	80.0	110.0	268.0	233.0	230
Capital Revenue	0.8	4.0	1.3	1.6	11.8	1.8	-	-
TOTAL EXPENDITURES	443.1	704.6	933.7	1130.8	1165.4	1594.1	1873.0	2415
Current Expenditure	340.2	493.2	628.9	771.6	832.8	1142.8	1283.0	1640
Capital Expenditure	102.9	211.4	304.8	359.2	332.6	451.3	590.0	775
CURRENT ACCOUNT	6.7	20.3	10.5	-166.5	-192.4	-207.3	-166.0	-381
OVERALL DEFICIT	-95.4	-187.1	-293.0	-524.1	-513.2	-556.8	-755.0	-1040
FOREIGN FINANCING (net)	53.9	55.2	99.4	83.2	21.1	269.9	233	-320
Disbursements			110.4	106.7	69.1	427.3		
Amortization			-11.0	-23.5	-48.0	657.4		
DOMESTIC FINANCING (net)	41.5	131.0	193.6	440.9	492.1	286.9	522.0	720
Banking System	18.1	43.2	114.9	325.9	229.4	135.9	310.0	-
Non-Bank	23.4	88.7	78.7	115.0	262.7	151.0	212.0	-

Source: Ministry of Finance

D. Government Revenue and Expenditure: The government's fiscal position deteriorated rapidly between 1974 and 1980 as revenues, undermined by a declining economy, failed to keep pace with rapidly rising expenditure. The result was a series of deficit budgets, financed in part by foreign borrowings and in part by unbacked borrowings from the Bank of Jamaica.

Between JFY-73 (April 1973 to March 1974) and JFY-76, central government expenditures rose rapidly from 25 percent to more than 42 percent of nominal GDP, before declining slightly (as a percentage of GDP) under the pressure of expenditure controls. Major increases occurred in both current and capital account expenditures. In the current account, the rapid growth in the public wage bill and large increases in current transfers and interest payments accounted for most of the increase. In the capital account, loans and transfers to public sector industries, aimed at maintaining current production and employment, absorbed most of the increases, providing little net public capital formation.

Revenues failed to keep pace with these increases in expenditure. Even with the large increase in revenues received from the bauxite levy, revenue, as a percent of GDP, rose only 2.5 percent (to 22.5 percent of GDP) between JFY-73 and JFY-76. Thereafter, steep increases in income taxes and consumption and import duties produced but small increases in revenues.

The result of these developments was a series of budget deficits, which annually totalled between 15 and 20 percent of GDP throughout the late 1970s. In JFY-80, the budget deficit reached J\$1040 million, a total which could only partially be covered by foreign borrowings and domestic non-bank credit. The remaining deficit of J\$401 million was met by unbacked borrowings from the Bank of Jamaica.

(See Table III: Operations of the Central Government, FY-1973/74--FY-1980/81)

E. Money Supply and Inflation: Net domestic credit from the banking system increased rapidly between 1974 and 1980 in response to the government's increasing demands for credit. Money supply growth was more moderate, however, as a result of a deliberate policy decision by the Bank of Jamaica to accept massive foreign debts in return for relative price stability. Only in 1975, 1976 and 1977 did money supply growth exceed the growth in nominal GDP, and, for the full seven year period, money supply growth approximately matched nominal GDP growth.

Inflation, for much of this period, remained moderate. Only in 1978, when a major devaluation of the Jamaican dollar temporarily forced inflation close to an annual 50 percent rate, and in 1980, when the Bank of Jamaica was forced to issue unbacked credit to cover the government's huge fiscal deficit, did inflation exceed an annual 20 percent rate.

(See Table IV: Summary Accounts of the Monetary System, 1973-80)

TABLE IV
 JAMAICA - SUMMARY ACCOUNTS OF THE MONETARY SYSTEM, 1973-80
 (J\$ million)

<u>Net foreign assets</u>	77.8	-14.6	-215.6	-245.8	-514.5	-849.3	-917.4
<u>Net domestic assets</u>	715.9	951.0	1203.3	1365.4	1933.5	2455.1	2971.4
Net credit on Central Government	141.6	253.8	491.4	659.1	935.1	1156.8	1687.2
Net credit on rest of public	-5.4	28.0	37.8	58.0	78.9	129.2	76.6
Official capital and surplus	-19.4	-10.0	-17.4	-17.9	-8.4	-8.2	-8.2
Credit to other financial institutions	13.2	37.3	31.8	26.5	48.7	62.5	50.0
Credit to private sector	537.8	606.8	596.9	521.9	617.3	734.4	865.0
Ned unclassified assets a/	48.1	35.1	62.8	81.8	261.9	380.4	300.8
<u>Allocation of SDBs</u>	19.7	18.8	18.7	19.5	39.0	59.5	75.1
<u>Medium and long-term foreign liabilities</u>	13.8	15.2	13.2	11.8	3.8	3.8	5.8
<u>Liabilities to the E.D.F.</u>	-	-	-	-	-	-	-
<u>Liabilities to other financial institutions</u>	95.7	103.1	105.8	71.9	99.6	110.4	124.0
Special deposits	--	--	--	--	63.3	2.6	150.0
<u>Liabilities to private sector</u>	664.5	799.3	850.0	1016.4	1213.3	1429.5	1699.1
Money	236.5	287.3	301.3	420.2	497.4	570.1	656.1
Quasi-money and other b/	428.0	512.0	548.7	596.2	715.9	859.4	1043.0

a/ Includes valuation adjustment and stabilization fund.

b/ Includes commercial banks' capital and surplus.

Source: Bank of Jamaica, IMF

F. Debt Service: The cost in foreign debt of this relatively restrained monetary growth proved very high however. Between 1974 and 1980, the Bank of Jamaica's net foreign assets dropped from a positive J\$77.8 million to a negative J\$917.4 million, while the combined direct and guaranteed debt of the GOJ and the Bank of Jamaica climbed to approximately US\$1.86 billion. In 1981, payments on this debt will total more than US\$600 million, i.e., more than 50 percent of expected export earnings.

G. Balance of Payments: Poor export performance, a sharply rising oil bill, disappointing tourism receipts, net private capital outflows, and mounting debt service payments together produced a series of large deficits in Jamaica's external account beginning in 1975.

Exports were a particular disappointment. Between 1974 and 1980, all of Jamaica's major export commodities declined in volume. Bauxite exports fell from 7.8 million metric tons to 6.1 million metric tons, alumina exports fell from 2.8 million metric tons to 2.4 million metric tons, sugar exports declined from 265,000 metric tons to only 128,000 metric tons, and banana exports dropped from 71,000 metric tons to only 33,000 metric tons. In most cases, price increases held nominal export earnings at or above previous levels despite the decline in volume. In the case of sugar, however, a decline in prices throughout most of this period paralleled the decline in volume, leading to annual net losses in export earnings that ranged close to US\$100 million.

On the payments side, rapidly increasing oil payments and investment income outflows absorbed increasing amounts of foreign exchange. Very little was left for any but the most essential imports, particularly after the imposition of foreign exchange and import controls in 1977 and 1978. These controls were directed first against imports of capital goods, food and consumer durables, but eventually also cut into the imports of raw materials and intermediate goods necessary for industry and agriculture. Altogether, between 1974 and 1980, the real value of Jamaica's imports (measured in constant 1974 US dollars) declined by more than 40 percent.

(See Table V: Balance of Payments, 1970-1980; and
Table VI: Imports by End-Use, 1970-1980)

TABLE V

JAMAICA - BALANCE OF PAYMENTS, 1970-1980
(US\$ million)

	1974	1975	1976	1977	1978	1979	1980
Exports (FOB)	605	760	630	724	795	814	992
Imports (CIF)	936	1123	913	747	865	1003	1196
(of which oil)	(195)	(215)	(204)	(235)	(194)	(335)	(470)
Trade Balance	-331	-363	-283	-23	-70	-189	-204
Non-factor Services, net	110	97	49	73	105	140	141
(of which tourism)	(133)	(129)	(106)	(106)	(147)	(195)	(200)
Investment Income, net	21	-52	-113	-129	-179	-203	-247
Transfers, net	24	26	6	20	26	80	82
Current Account	<u>-176</u>	<u>-292</u>	<u>-241</u>	<u>-59</u>	<u>-118</u>	<u>-172</u>	<u>-228</u>
<u>Director Foreign Investment</u>	23	-2	-1	-7	-27	-26	-
Public Capital, net	173	179	87	27	102	126	75
(Disbursements)	(203)	(210)	(144)	(117)	(223)	(228)	(141)
(Amortizations)	(30)	(31)	(57)	(90)	(121)	(102)	(66)
Other Capital <u>b/</u>	50	34	6	-21	-96	-75	28
SDR Allocations	-	-	-	-	-	10	10
Change on Reserves							
(- increase)	-70	81	249	60	139	137	115
(of which Change in Arrears)	-	-	-	(27)	(36)	(-8)	(59)

a/ Preliminary

b/ Includes errors and omissions

Source: Bank of Jamaica, IMF and IBRD Estimates.

TABLE VI

JAMAICA - IMPORTS BY END-USE, 1970-1980
(In 1974 \$US million)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Consumer Goods</u>	<u>200.5</u>	<u>227.8</u>	<u>152.4</u>	<u>93.7</u>	<u>125.7</u>	<u>108.7</u>	<u>115.1</u>
Foods	(122.1)	(127.7)	(83.8)	(54.6)	(74.1)	(61.7)	(62.2)
Non-durables	(36.6)	(47.2)	(31.9)	(23.6)	(29.1)	(27.2)	(30.5)
Durables	(41.8)	(52.9)	(36.7)	(15.5)	(22.5)	(19.3)	(22.4)
<u>Fuels</u>	<u>195.2</u>	<u>199.6</u>	<u>170.0</u>	<u>159.1</u>	<u>145.7</u>	<u>179.5</u>	<u>152.3</u>
<u>Raw Materials</u>	<u>288.2</u>	<u>288.8</u>	<u>255.9</u>	<u>206.9</u>	<u>278.5</u>	<u>207.7</u>	<u>197.8</u>
<u>Capital Goods</u>	<u>252.0</u>	<u>262.0</u>	<u>164.4</u>	<u>120.1</u>	<u>115.0</u>	<u>101.8</u>	<u>92.4</u>
Construction Materials	(97.9)	(81.4)	(59.2)	(56.0)	(53.3)	(35.7)	(33.1)
Transport Equipment	(38.0)	(74.7)	(22.4)	(10.1)	(14.7)	(21.5)	(19.6)
Other Machinery	(116.1)	(105.9)	(82.8)	(54.0)	(47.0)	(44.6)	(39.7)
<u>Merchandise Imports</u>	<u>935.9</u>	<u>978.2</u>	<u>742.7</u>	<u>579.8</u>	<u>664.9</u>	<u>597.2</u>	<u>557.6</u>

Source: Department of Statistics; mission estimates

III. Policies of the Government of Jamaica and Current Outlook

A. Strategy for Recovery and Development: In its election manifesto (which remains the most comprehensive statement of the new government's economic plans), the Jamaica Labor Party promised a radical break with the nation's recent economic policies. Where the former government had sought to limit the role of the private sector and to preserve for the public sector the "commanding heights" of the economy, the JLP promised to promote the role of the private sector, to limit bureaucratic controls on and interference with economic activity, and, in general, to open up the economy to the motivational force of price and profit incentives. In regard to fiscal and monetary policy, the manifesto promised to close the deficit in the recurrent account by JFY-83, to limit the portion of new credit going to the public sector, and to ensure that sufficient credit was available to a recovering private sector. Finally, to provide the foreign exchange needed to halt the economy's decline and lay the basis for a further development effort, the government outlined a three-part program based on (1) large scale balance-of-payments assistance from the IMF, the World Bank, and other bilateral, multi-lateral and commercial lenders; (2) increased foreign exchange earnings from better utilization of existing capacity in tourism, agriculture and manufacturing; and (3) further increases in foreign exchange inflows from new investment.

B. Progress in Implementation

1. Fiscal Austerity: The new GOJ has been most successful in its efforts to close the fiscal deficit and restrict new public sector borrowing. Under its agreement with the IMF, the new government undertook to restrict the overall central government budget deficit (net of amortization) to J\$945 million in JFY-81, and central government borrowing from the domestic banking system to less than J\$72 million. With five months gone in JFY-81, it now appears likely that both targets will be met. Stricter tax collections, including the collection of outstanding arrears, are now expected to produce a 23 percent increase in tax revenues over JFY-80, while expenditure controls, including a 9 percent per annum average wage increase for public sector workers over the next two years, are expected to hold the increase in expenditures, net of amortization, in check. Overall the budget deficit, again net of amortization, is now projected at J\$841 million. No new net central government borrowing from the domestic banking system is now forecast; rather, repayments of J\$37.4 million are expected.

(See Table VII: Central Government Operations (Summary))

2. Promotion of the Private Sector: While it has hesitated to act on certain key policy issues, particularly in regard to quantitative restrictions on imports, the GOJ has taken a number of the steps needed to reorient the Jamaican economy towards a private sector and market-oriented development strategy.

First, in order to extricate itself from money-losing commercial involvements, the government has begun to seek private sector management or ownership for a number of public sector hotels and corporations. Six public corporations have already been offered for sale (one of which has already been sold) and another nine are due to go on the block. In addition, leasing arrangements have been sought for eight of Jamaica's sixteen public sector hotels (the other eight are already under private sector management.) Agreements for the private leasing (or sale) of six of the eight are expected to be announced during October 1981.

The government has also moved to relax price controls, to simplify import licensing procedures and to eliminate import licensing controls on some types of imports (goods imported by "approved" importers on a "non-funds" basis; i.e., with funds drawn from sources other than the Bank of Jamaica). The government has not, however, acted in two other areas where deregulation would have a significant impact, not only on company profits, but also on competition and efficiency throughout the economy. It has not, first of all, taken steps to eliminate any significant portion of the quantitative restrictions on imports that Jamaica has maintained since the mid-1960s. While 42 items which are no longer produced in Jamaica in commercial quantities were eliminated in June 1981 from the previous "restricted" list (the list of goods which can be imported only if domestic supply falls short of domestic demand and then only with the permission of the Minister of Industry and Commerce), the remaining 338 items still on the list effectively cover the full range of Jamaica's domestic production. The government has also not acted to revise investment incentives. Under current guidelines, which were drafted when Jamaica was still seeking to promote the maximum possible number of import-substituting industries, incentives are not offered under the island's basic incentive law - the Industrial Incentives Law - to companies whose production will be in excess of the island's requirements. This denial of benefits, in turn, discourages new entrants and competitors in almost all of Jamaica's industries. Together with the lack of import competition, it has been one of the prime causes of the slackness and inefficiency that has plagued Jamaican industry since the late 1960s.

Finally, in regard to the promotion of private investment, the government has moved vigorously during its first months in office. In December it established a special Investment Promotion Unit (IPU) at the Jamaica National Investment Company (JNIC), to which it gave overall responsibility for coordinating Jamaica's investment effort. In February it helped forge a direct link between the U.S. and the Jamaican private sectors through the U.S. Business Committee on Jamaica, with similar committees being formed later in Canada and Britain. At the same time, in informal statements of government policy, it dropped restrictions on foreign investment in service and distribution industries and requirements for government participation in basic industries such as sugar.

The immediate impact of these steps was a flood of investment proposals. Through August 28, 1981, the Investment Promotion Unit of JNIC had received 408 investment proposals from both foreign and domestic entrepreneurs worth a total of US\$622 million. Unfortunately, in its early months, the IPU was not adequately staffed or equipped to handle such a volume of proposals. As a result, it is only in September, after a thorough reorganization which left the IPU reconstituted as a separate subsidiary company (called Jamaica National Investment Promotions Limited) that efforts are being made to explore and develop the full range of proposals received to date. This new organization is at the heart of the GOJ's new private sector push and is playing a managerial and coordinating role for the GOJ for the Technical Consultation and Training Grant. It is also receiving some assistance to improve its capabilities and programs.

3. Production, Exports and Foreign Exchange Earnings: Within the constraints imposed by limited resources, the GOJ has moved to address some of the island's major production constraints. Its efforts, however, have been undercut by external developments, such as a softening in the international market for bauxite and alumina, and carry-over effects from 1980, such as shortfalls in the island's banana and sugar crops, and a continuing low level of tourist traffic. As a result, it now appears likely that real GDP growth in 1981 will be only slightly positive, i.e., something less than two percent, at best, and possibly zero.

The mining sector has been a particular disappointment. The GOJ had been counting heavily upon increased exports and new investment in the bauxite industry to provide a large portion of the foreign exchange cost of its development program. Bauxite production had been expected to rise to 12.4 million metric tons in 1981, and 13.2 million metric tons in 1982 and 1983. Net foreign exchange earnings from bauxite and alumina (levy and royalties plus local costs, but excluding special sales to the U.S. strategic stockpile) had been expected to rise to \$402 million in JFY-81, \$432 million in JFY-82 and \$453 million in JFY-83. New investments at JAMALCO (\$350 million) and ALPART (\$460 million), moreover, had been expected to contribute approximately \$116 million in net foreign exchange inflows in JFY-82 and JFY-83, together with approximately 850,000 metric tons of new alumina processing capacity. Now, however, with the overall downturn in the international bauxite and alumina markets, production, rather than rising, is expected to slip in 1981 to only 11.5 million metric tons, with no upturn expected before 1983, at the earliest, unless purchases are made by the USG for its strategic stockpile program. Net foreign exchange earnings in JFY-81 are now expected to total no more than \$362 million. As for investment, with the decision of the Norwegian partners in the JAMALCO project not to proceed at this time, net investment inflows in JFY-82 could drop by almost \$40 million. To compensate for these losses, the GOJ continued to seek special bauxite sales, this time to both the U.S. strategic stockpile and to Venezuela. The USG is still studying this question.

Venezuela is now considering a Jamaican offer to provide some 600,000 tons of bauxite per year.

In the case of agriculture, the government has taken steps to address some of the major problems that have plagued production and limited exports. With loans from a variety of bilateral, multilateral and commercial sources, it has begun to put in place the foreign exchange financing needed for an adequate supply of raw materials, spare parts, and new farm machinery. It has also begun a reorganization of the nation's agricultural credit system, disbanding the practically defunct Jamaica Development Bank and establishing in its place a new Agricultural Credit Bank. In addition, to encourage private investment, the government has laid plans to bring incentives for investment in agriculture virtually on par with those now offered for investment in industry. Finally, to redress the imbalance that has developed between food crop prices and export crop prices, as a result of restrictions on food imports, the new government has taken three steps. First, it has increased food imports substantially. Second, it has eliminated the monopsony powers previously enjoyed by the national export marketing organizations; in the future producers will be able to market their own crops, though the foreign exchange receipt from exports will still have to be funnelled through the national commodity organizations. Lastly, in order to cut overheads and again increase returns to primary producers, the government has begun to unburden the two major commodity organizations, the National Sugar Company and the Banana Company of Jamaica, of some of the social welfare responsibilities with which they had been loaded by the previous government. The National Sugar Company can now, for the first time, consider closing uneconomic factories, while the Banana Company of Jamaica will henceforth be required to supply inputs only to farmers with whom it has established a firm contract relationship, rather than to all banana farmers, as was the case in the past.

These efforts, however, are not likely to produce any significant rewards in 1981. The new resources and organizational changes now being made are simply coming on line too late to have any significant impact on this year's crops. Of more importance are the accumulated effects of years of neglect and mismanagement, reflected most directly in this year's sugar and banana crops, which are not expected to total more than 210,000 and 70,000 metric tons, respectively. Overall, it now seems likely that agricultural production, exports and export earnings will all increase only slightly in 1981 from last year's low levels. Real agricultural production should barely recover the ground lost in 1980, rising by about two percent, despite declines in sugar, banana and, possibly, food crop production. Gross export earnings from agriculture, similarly, should increase only slightly from 1980's low level of \$93.4 million.

4/21

TABLE VII

Jamaica: Central Government Operations (Summary)
(In millions of Jamaica Dollars)

	1 9 8 1 - 8 2 <u>Program</u>	<u>Budget</u>	<u>Revised Estimates</u>
<u>Total Revenue</u>	1,425.1	1,416.7	1,492.4
Current Revenue	1,419.1	1,404.5	1,480.2
Tax	(1,052.1)	(1,037.2)	(1,136.9)
Nontax	(43.0)	(43.3)	(43.3)
Bauxite Levy	(324.0)	(32.40)	(300.0)
Capital Revenue	6.3	12.2	12.2
<u>Total Expenditure</u>	2,366.6	2,326.1	2,333.4
Current	1,693.5	1,683.4	1,683.4
Capital (Net of Amortization)	673.1	642.4	650.0
<u>Current Account Balance</u> (excluding capital revenue)	-274.4	-278.9	-203.2
Current Account Balance	-268.1	-266.7	-191.0
<u>Overall Balance</u>	-941.2	-969.4	-841.0
<u>Financing</u>	941.2	909.4	841.0
Net Foreign	802.0	800.4	714.7
Net Domestic	139.2	108.0	126.3
Bank	(72.2)	(-39.1)	(-37.4)
Nonbank	(67.0)	(148.1)	(163.7)
Residual	-	-	-
<u>(In percent of GDP)</u>			
Total Revenue	24.6	24.5	26.4
Current Revenue	24.5	24.3	26.2
Total Expenditure	40.9	40.2	41.3
Current Expenditure	29.2	29.1	29.8
Current Balance	-4.7	-4.8	-3.6
Overall Balance	-16.3	-15.7	-14.9
<u>Memo: Nominal GDP</u>	5,792	5,792	5,645

Ministry of Finance & Planning, August 6, 1981

11

The new government has also been active in its efforts to revive Jamaica's sagging tourist industry. First, as noted above, it has sought leasing arrangements with private operators for eight public sector hotels. Six of these hotels will be in private hands before the opening of the 1981/82 winter season. Second, with the assistance of the member companies of the Tourism Subcommittee of the U.S. Business Committee, the government has launched intensive publicity campaigns in the island's major tourism markets. Third, the new government has negotiated a protocol to the U.S. - Jamaica double tax treaty, under which American conventioners in Jamaica would be able to deduct their business-related convention expenses for U.S. income tax purposes. Fourth, the government has begun to refit Air Jamaica's fleet and to arrange additional scheduled and charter air service between the U.S. and Jamaica.

The GOJ has been less active in regard to manufacturing. It has taken steps to decontrol prices, to simplify import licensing procedures, and to provide the foreign exchange financing needed for an increased flow of raw materials and capital goods. No steps have been taken, however, to broaden the applicability of Jamaica's current export incentives (under Jamaica's Export Industry Encouragement Law, only those companies producing entirely for export to hard currency markets are eligible for incentives). Nor has it taken any steps to eliminate the disparity in prices which has arisen between goods sold domestically and goods exported, as a result of the quantitative restrictions on manufactured imports that Jamaica has maintained. Jamaican manufacturing production has, as a result, remained dependent on the performance of the other major sectors of the Jamaican economy, and with the recent declines in tourism and agriculture and the cut in real public expenditures that have taken place this year, it too has declined. While a recovery is possible in coming months, for the year, real manufacturing product growth is likely to be negative.

4. The Balance of Payments Constraint: In April 1981, the GOJ and the IMF agreed to a foreign exchange financing program designed to support a 3 percent real GDP growth rate in Jamaica during JFY-81. Under that program, a 15 percent increase in Jamaica's nominal export earnings (See Table VIII) was expected to partially offset a 33 percent increase in imports, leaving a projected trade deficit of US\$415 million. In the services account, a 29 percent increase in nominal tourism earnings was expected to cover part of an even larger increase in net investment income outflows. Overall, a current account deficit of approximately US\$395 million was forecast.

To cover this deficit, a near tripling in public sector capital inflows from both loans and deferred amortization payments was projected. Gross public sector capital inflows were expected to total approximately US\$987 million (of which US\$620.1 million was to be disbursements of special development assistance); net public sector inflows were expected to total approximately US\$473 million.

In the months which have followed, however, earnings and other inflows have both fallen short of these targets. For the reasons listed in Section 3 above, i.e., a softening in the international market for bauxite and alumina, low sugar production in fields left unfertilized in 1980, a slow recovery in the banana industry from the devastation wrought by 1980's Hurricane Allen, and a residual uncertainty regarding Jamaica among tourists familiar with the island's past reputation for violence, Jamaica's total foreign exchange earnings now seem likely to fall at least US\$140 million short of the original fiscal year targets. Earnings from bauxite and alumina exports are expected to be off at least US\$80 million; earnings from bananas, sugar, and other agricultural exports are expected to be down by at least US\$17 million. Even non-traditional exports (primarily manufactures marketed in other CARICOM nations), which had been increasing at annual rates in excess of 10 percent per year throughout the late 1970s, are now expected to fall at least US\$28 million short of the BOJ/IMF* fiscal year target of US\$185 million. Finally, gross tourism earnings are expected to be off at least US\$15 million from the original target of US\$257 million.

As for public capital inflows, gross inflows from loans and deferred amortization payments are now expected to total approximately US\$997 million during JFY-81, i.e., US\$10 million more than had been expected. (See Table IX). However, an unexpectedly large portion of these inflows (approximately US\$442 million rather than the US\$367 million originally programmed) will become Bank of Jamaica liabilities. Special Development assistance, on the other hand, now seems likely to total at most US\$545 million, US\$75 million short of the original IMF target.

* Bank of Jamaica

These shortfalls in foreign exchange and special development assistance, though partially offset by cuts in private debt and capital payments, have, in turn, brought the Government of Jamaica up against one of the prime conditions of its IMF agreement. In that agreement, in order to assure the IMF that the island's total external expenditures would be kept within a specified range of its total earnings, the GOJ undertook to increase the net foreign assets of the BOJ during the course of JFY-81 by at least US\$40 million. However, as a result of these shortfalls in earnings and inflows, and the difficulty the GOJ had in meeting its September 1981 IMF targets, the most likely forecast (according to figures agreed upon by the BOJ and the IMF) is for the BOJ to fall at least US\$110.8 million short of meeting both its currently scheduled import bill and its IMF target for March 1982 of a US\$40 million increase in net foreign assets (See Table X). This joint IMF/BOJ estimate, moreover, assumes 1) an additional US\$6 million in liquid reserves that are not accounted for in the BOJ's cash flow foreign exchange budget; 2) that the BOJ will not be called upon to make payments on US\$25.5 million in current arrears that stand outside the BOJ's deposit scheme; and 3) that the BOJ will be able to draw down during JFY-81 all rather than only half of the US\$65 million to be disbursed under the proposed World Bank Structural Adjustment Loan. If these assumptions prove false, which they probably will in the case of the World Bank's Structural Adjustment Loan and the missing US\$6 million in liquid reserves, then the total shortfall could increase to between US\$149.3 million and US\$174.8 million. On the other hand, the IMF/BOJ estimate also assumes that the BOJ will not be able to take advantage of the full US\$60 million adjustment in the IMF target for net foreign assets to which the projected shortfall in special development assistance now entitles it. With that adjustment factored in, the total probable shortfall shrinks to somewhere in the range of US\$89.3 million to US\$114.8 million.

To close or finance this deficit, there are only three possibilities: additional exports, new loans to the GOJ, or cuts in imports. The only possibility for significant additional exports would be special bauxite sales to the United States strategic stockpile. Given, however, first the time needed to negotiate such sales, both with the United States and with the producer companies, and second, limitations on the producer companies' current spare capacity, it is highly unlikely that Jamaica could produce and ship more than 500,000 long dry tons of bauxite worth (to the GOJ) US\$10 million during the remainder of JFY-81. As for aid, there are simply no prospects for new loan disbursements to the GOJ from sources other than the United States for the rest of JFY-81.

While Jamaica may be able to negotiate for Central Bank deposits at the BOJ, as it has, for instance, in the case of a recent US\$25 million deposit by the Central Bank of Venezuela, these deposits, since they are liabilities of the BOJ, will have no impact on the looming shortfall in the BOJ's net foreign assets under its IMF agreement.

Without additional aid, therefore, the Government of Jamaica, in order to meet its IMF targets for March 1982, will have no option but to cut import financing by between US\$89.3 million and US\$114.8 million. To appreciate the impact which such cuts would have on the Jamaican economy, one need only compare them first to the total level of imports planned. To produce any net increase in the BOJ's international reserves, all cuts in imports would have to be taken out of the BOJ's currently-scheduled cash financed imports. However, according to the BOJ's most recent cash flow foreign exchange budget, cash financed imports for JFY-81 will total only US\$762 million: US\$391 million in imports, US\$111 million in basic food imports, and US\$260 million in other non-oil raw material and capital good imports. This total of US\$762 million, moreover, includes a large overstatement of actual payments for oil imports (oil payments net of financing actually total only US\$228 million), and US\$70 million for imports delivered during JFY-80, but paid for in JFY-81. Net cash import financing for JFY-81, therefore, is actually only US\$529 million. Minus six months imports, that total now is probably less than US\$275 million. Any import cuts made now, therefore, would have to be made from the oil, basic food, raw material and capital good imports included in that small total.

Secondly, even apart from the relationship of the projected import cuts to the narrow import base, one should bear in mind that a total between US\$89.3 million and US\$114.8 million is equivalent to 3 to 3.5 percent of Jamaica's projected GDP for JFY-81. Given the fact that a majority of the import cuts would have to be made in agricultural and industrial inputs and in capital equipment badly needed for plant rehabilitation, cuts of that magnitude would produce at least an equivalent drop in GDP during 1982, together with a rapid run-up in prices. Given the GOJ's current forecast for real GDP growth in 1982 (4 percent), a drop of that magnitude, in turn, would mean yet another year of stagnation or decline in Jamaica.

61

TABLE VIII
SUMMARY BALANCE OF PAYMENTS FORECASTS
1981/82 Fiscal Year

	Programme	Revised
	(In millions of US dollars)	
<u>Current Account</u>	<u>-395</u>	<u>-615</u>
Net Merchandise	-415	-610
Exports, f.o.b.	(1139)	(1015)
Imports, c.i.f.	(-1554)	(1625)
Net Services	-95	-110
Net Transfers	115	105
<u>Capital Account</u>	<u>435</u>	<u>520</u>
Public Sector, net	473	463
Private Sector, net (includes errors and omissions)	-38	57
<u>Changes in Net International Reserves (increase -)</u>	-40	20
Of which is change in arrears	-80	-80
	(as percent of GDP)	
<u>Memorandum Items</u>		
Current account	9.9	19.4
Public sector net capital flow	11.9	14.6

Source: Bank of Jamaica, Embassy Estimates.

TABLE IX
 LOAN RECEIPTS AND DEFERRED AMORTIZATION PAYMENTS

Fiscal Year 1981/82
 (in millions of U.S. dollars)

	Total	Cash	Non-Cash
<u>Loan Receipts</u>			
International Monetary Fund			
EFF	260	260	-
CFE	45	45	-
World Bank	100	65	35
Interamerican Development Bank	20	-	20
Venezuela/Mexico Oil Facility	87	87	-
Government Project Imports	65	34	31
OPEC	10	10	-
Donor Countries	152	37	115
Bridging Finance (from Central Banks of Colombia, Peru, and Venezuela)	40	40	-
Commercial Banks	<u>70</u>	<u>70</u>	<u>-</u>
Total	849	648	201
<u>Refinancing and Deferral Arrangements</u>			
Commercial Banks	52		
Government of Canada	22		
Government of Trinidad/ Government of Jamaica	19		
Central Bank of Trinidad/ Bank of Jamaica	<u>55</u>		
Total Refinancing	<u>148</u>		
<u>Summary</u>			
Loan Receipts	849		
Refinancing	148		
Total	997		

Source: Bank of Jamaica, Embassy Estimates

TABLE X
NET FOREIGN ASSETS OF THE BANK OF JAMAICA
July 1981 Projection for JFY-81
(US \$ millions)

	March 1981	March 1982
Net Foreign Assets	-582.8	-653.6
Assets	73.6	73.6
Liquid	(7.1)	(25.0)
Non-Liquid	(66.5)	(48.6)
Liabilities	-656.4	-727.2
IMF Target for Net Foreign Assets		-542.8
Shortfall		110.8

Source: Bank of Jamaica

IV. PROPOSED U.S. ASSISTANCE

A. Urgency of Need

The Jamaican economy is on the verge of reversing the prolonged economic decline which it has experienced in recent years. There exists significant interest in the economy from both local and foreign investors and the GOJ has developed an economic program which relies heavily on the encouragement of private sector initiatives. However, the economy remains in urgent need of foreign exchange financing over and above that included in the accounts for JFY 81. If such additional financing is not forthcoming, the GOJ will have to face the choice of either failing its March 1982 IMF target for net foreign assets at the Bank of Jamaica or cutting cash-financed imports during coming months by at least one-third. Cuts in imports of this magnitude, between 3 and 3.5 percent of GDP, would severely set back the recovery program, and the possibility of real growth of GDP during 1982 would be minimal. Much more likely would be yet another year of stagnation and decline. Should additional resources be made available in time to maintain imports at currently scheduled levels throughout the winter of 1981/82, prospects for real GDP growth in 1982 would be good.

While the inflow of foreign exchange into the economy has improved in recent months, the impact has been limited. The most significant source of funds has been the IMF which will provide under the EFF program US\$190 M to the GOJ during JFY 81/82. The IMF resources, however, have been used specifically for paying off arrears of overseas obligations. International credit channels are once more available to the Jamaican economy but the inflexibility attached to the use of such funds limits their usefulness. So far, the FY 81 USAID \$40.0M ESF loan has been the only source of funds to the GOJ which, apart from its speed of disbursement, afforded the GOJ any real room for manoeuvring, having represented an actual transfer of cash to the GOJ.

In light of the above, it is recommended that US\$40.0M be made available to the GOJ for import financing during USFY 82. Furthermore, the impact of this assistance would be significantly enhanced if it were provided during the fourth quarter of 1981. This level of assistance is recommended on condition that the GOJ will present a program of structural adjustment acceptable to the U.S. Government.

B. Objectives

There are two basic objectives of this United States assistance. On the one hand, the rapid disbursement of \$40 million in import financing is intended to stimulate production, exports, employment and foreign exchange earnings throughout the Jamaican economy. On the other, tying the disbursement of this assistance to the adoption by the GOJ of a realistic program of structural adjustment is intended to encourage the GOJ to move as rapidly as possible to adopt the market-oriented development strategies to which the Government expresses deep commitment.

C. Proposed Level of U.S. FY 82 Assistance

1. General

In FY 82 the U.S. plans to provide a comprehensive package of financial and technical assistance valued at approximately \$155 million. These resources are expected to be provided, in the main, under three programs: an ESF Loan/Grant package of \$43.0 million, AID Development Assistance Loans and Grants of about \$40.0 million, and food assistance—\$20.0 million of PL 480 Title I and \$35 million of CCC Commercial Credit Financing. The residual of \$17 million is composed of military assistance, EXIM sponsored credits and Peace Corps assistance. In addition to this assistance, new OPIC investment guarantees of \$50 million and a new AID Housing Investment Guaranty of \$15 million are expected to be put in place in FY 82. \$10 million of AID funds will also be available to Jamaica through the Caribbean Development Facility IV of the CDB.

The size and composition of this assistance package is designed to maximize the impact of U.S. Assistance on the recovery of the Jamaican economy by concentrating on areas of critical need. The ESF loan/grant package, will provide effectively unrestricted foreign exchange, reduce the balance of payments shortfall and the GOJ's budget deficit through counterpart funds and provide grant funds critical for hiring technicians to improve the use of available resources. It has a quantitative economic impact even greater than would be indicated by its relative size within the portfolio. This package, plus the other two major components of the U.S. Assistance Program are discussed in greater detail below.

2. ESF Loan/Grant Program

(a) ESF Loan

USAID initially considered the possibility that the ESF loan be provided in the form of a Commodity Import Program (CIP). Further analysis has indicated, however, that a CIP would not be the most appropriate assistance instrument.

A CIP would not provide the quick disbursing balance-of-payments support which Jamaica so urgently requires. AID's prior experience in Jamaica with the 1977 CIP loan indicates that significant delays can be expected. Loan disbursements under the 1977 loan required 18 months to be fully completed. Some of the balance of payment impact originally intended was thereby lost.

The establishment of a CIP would impose an administrative burden which Jamaica would find difficult to bear at the present time. The government's bureaucracy is already seriously short of trained personnel to carry out existing programs and the addition of new requirements would further increase the strain on the public service.

USAID, therefore, proposes to utilize the Cash Transfer mechanism established in AID Handbook 4 and to provide loan funds as a lump-sum transfer. These funds will be utilized to finance a broad range of eligible imports needed by the private and public sectors.

(b) ESF Grant Assistance to Productive Sector

In general terms assistance to expand present levels of production particularly in the private sector is needed on an urgent basis. Although the Jamaican economic base is fairly well developed and diversified, with a wide range of manufacturing activities, these operations tend to be highly inefficient. One of the fundamental causes for this is that the Jamaican economy has had its stock of professional, managerial and skilled personnel significantly depleted in recent years due to emigration. This is particularly evident at the middle management levels, and the shortage of these and other types of human resources represents a serious constraint against the quest for increased efficiency, production and overall economic recovery.

Similarly, the Jamaican public sector is in need of urgent assistance especially in the areas of tax and budgetary administration and economic management, areas of the public sector which are intimately linked to the economic recovery program. Deterioration in key government and quasi-government bodies has been more precipitous than that sustained by Jamaica's infrastructure.

The economic recovery program is heavily dependent on the realization of significant new investment in the economy from both domestic and international sources, and particular attention needs to be given to the organizations and programs charged with attracting that investment.

The Technical Consultations and Training Grant (532-0079) started in June 1981, and now fully committed, initiated an ideal program to address the foregoing and related matters. The project paper for that activity was approved and submitted to AID/W. Kingston 7417 constitutes a request for an additional \$3,000,000 to be used for the program and is incorporated in this PAAD as Annex B.

USAID considers this grant to be the single most important mechanism for providing rapid and flexible U.S. response to opportunities for assistance to the Jamaican private sector. Activities financed under the grant are keyed to investment promotion, increased productivity and export development. Many are supportive of, and complementary to, initiatives resulting from the work of the U.S. Business Committee (Rockefeller Committee) and its Jamaican counterpart. The goal of the program is to help stimulate Jamaica's economic recovery, and it ideally complements and enables better use of balance of payments assistance.

3. AID Development Assistance Loans and Grants

The proposed \$40 million of DA Loans and Grants consists of forward funding to life of project cost a variety of on-going and new activities. The most significant of these are:

- Agricultural Marketing, completion of Phase I funding and funding of Phase II \$11.0 million
- AgriBusiness Development, \$5 million
- Population and Family Planning Services, \$1.3 million
- Health Management Improvement, \$4.4 million
- Basic Skills Training, \$1.0 million
- Various OPGs, \$1.0 million
- Energy Sector Assistance, completion of funding for Phase I and funding of Phase II, \$11.0 million
- Small Business Development, \$5.0 million

4. Food Assistance

(a) PL 480 Title I

Jamaica has been a regular recipient of PL 480 Title I loan assistance over the past few years, including a \$15 million program in FY 1981. In FY 1982, however, emphasis will be placed on obtaining a multi year program commitment (\$60 million over three years) similar to PL 480 Title III, but still under Title I terms. The quid pro quo for this multi year program would be a structural adjustment program in Jamaica's agricultural sector through policy reform/modification by the GOJ to promote domestic production. This structural exchange program would be consistent with and supportive of various IMF/IBRD efforts of a similar and related nature.

(b) CCC Program

The GOJ has requested \$35 million in CCC credits for FY 82. This request is strongly supported by USAID and the Embassy.

V. THE PROGRAM

A. Foreign Exchange and Local Currency Programs

1. Foreign Exchange

The \$40 million loan to the Government of Jamaica from the Economic Support Fund is designed to provide rapidly disbursing foreign exchange in order to promote increased production, exports, and employment. The loan is the largest and most important part of the U.S. assistance package for Jamaica.

The objectives of the U.S. assistance are to provide rapid disbursement and the stimulation of production exports and employment. The foreign exchange component of the U.S. assistance program will be used to fund previously issued cash foreign exchange import licenses. These licenses have been issued only for the most essential products (raw materials, capital goods and oil) and only to those importing entities which, because of their employment or foreign exchange earning capacity, are of most crucial economic importance. Funds will not be used for the procurement of military equipment or services, food or consumer goods.

Reasons to avoid tying the funds for particular uses, such as imports by selected industries include the following.

First, the foreign exchange budget is severely strained. The GOJ, projecting a higher growth rate than has actually occurred, has already issued import licenses to firms totalling an amount that will exhaust all available foreign exchange to the end of the fiscal year, March 31, 1982. Tying the funds to specific uses will leave the Jamaican Government two choices: either (a) revoke some licenses and substitute the earmarked imports, thus retaining the full deficit-covering benefits of the ESF loan, or (b) use the earmarked portion for additional imports foregoing that portion of the deficit-covering benefits. The first alternative is undesirable because the licenses are almost solely for oil, vital raw materials and capital goods. Furthermore, revoking licenses is not desirable because they may cover goods already in transit, because revocation would require cancellation of orders already placed, weakening the confidence of foreign suppliers in Jamaican business, and because it would weaken the confidence of the Jamaican private sector in the ability of the Jamaican government to honor its commitments. The second alternative is undesirable because it reduces the benefits of the loan in alleviating the enormous balance of payment deficit, which jeopardizes the IMF recovery program.

Second, tying the uses of loans to development criteria assumes that the lender has a clearer vision of national development priorities than does the borrower. In certain instances, this may be the case, such as when a government is politically unrepresentative or when economic strategies are inconsistent. These circumstances do not appear to apply

to Jamaica at present. The process of structural adjustment has left all sectors - industry, agriculture, tourism, and construction - in need of foreign exchange and credit. The government is broadly representative of these various sectors and has proved capable of establishing its own priorities in allocating foreign exchange and credit; also, it must accept the political responsibility for its decisions. Moreover, for its part, USAID does not have detailed information on the relative costs and benefits of alternative investment projects that would contradict the current allocation pattern of the government.

The following two substantive conditions on the use of foreign exchange provided under the Loan are recommended:

- a. That the Borrower agree that ESF funds not be used for the import of food, consumer goods or military equipment. Food aid from the U.S. is now amply provided in the US PL 480 program and under CCC credits. More importantly, evidence indicates that the danger of a food shortage looming in the early part of the year has now dissipated and that food imports have been sufficient to slow the rate of price increases on the domestic markets. There is wide concurrence among government officials that such restrictions will not hamper the recovery program.
- b. That the Borrower, to satisfy a condition precedent to loan disbursement in excess of \$5 million, provide evidence that it has reached agreement with the IBRD on the terms of the Structural Adjustment Loan and is meeting the economic targets and conditions of its Extended Fund Facility agreement with the IMF. This condition underscores the concern of the U.S. Government that Jamaica's emphasis on private sector development continue and the importance the U.S. attaches to the program of economic recovery. It also provides the U.S. with an opportunity to make an assessment of the GOJ's progress in these areas and engage in a dialogue with the government about such progress. On the other hand, by not singling out specific targets and measures, the task of enforcement will not rest with the U.S., when that task is more properly addressed by the IMF in view of the much greater relative magnitude of the IMF role in the Jamaican economy.

2. Program Grant

As indicated above this \$3,000,000 Grant will provide the single quickest and most effective way for AID to address important problems in the Jamaican private sector and in productive areas in general. This program represents an ideal complement to the foreign exchange support provided under the cash transfer loan and is a development tool frequently employed in countries receiving ESP assistance.

The Grant will meet primarily the foreign exchange costs of on-going and new support to critical areas of the economy facing constraints particularly in the areas of personnel and skill shortages, institutional underdevelopment, technologic transfer and investment promotion. It will build upon and augment the Technical Consultations and Training Grant (532-0079), which is described in the approved Project Paper submitted to AID/W and in the request for additional funding contained in Kingston 7417 at Annex B and incorporated in this PAAD. The Grant will provide a flexible, general and programmatic, rather than project specific, approach to a range of problems and weak spots that, in essence, limit the capabilities of the productive sector.

17

3. Programming of Local Currency Counterpart

a) Prior Generated Local Currencies

Local currencies in the amount of J\$73 million generated under the FY 1977 Commodity Import Program (CIP) loan and the FY 1978 through FY 1980 PL 480 Title I agreements have been allocated in accordance with a Memorandum of Understanding signed in March 1978 between the GOJ and AID. It was agreed that generated local currencies would be utilized in the sectors of agriculture, nutrition, health and population, education and housing, placing emphasis on improving the lives of the least privileged in Jamaica and on improving their capacity to participate in the development of the country. Priority in assignment of the local currency would go first to support on-going projects assisted by AID, second, to support activities which facilitate programs being considered for AID assistance, third, to support activities which complement such ongoing or proposed programs, and fourth, to support other high priority development projects for Jamaica as agreed between USAID and the GOJ. The allocations which reflect actual disbursements against the FY 77 CIP and the PL 480 agreements of FY 77-80 are presented in Annex C-1.

Local currency counterpart generated under the FY 1981 PL 480 Title I Agreement for \$15 million is being deposited in a Special Account in the Bank of Jamaica and is used to finance the local cost requirements of on-going and new USAID development projects. The projected allocation of local currency, J\$26.76 million is presented in Annex C-2.

The counterpart funds generated by the previous \$40 million cash transfer (532-K-014), disbursed in early 1981, are being used to support the Government of Jamaica's efforts to restore economic growth and to provide the basis for long-term development. These funds are allocated within the GOJ's 1981/82 capital and recurrent budgets and are being disbursed during the twelve-month period, April 1, 1981 through March 31, 1982. Disbursements of these local currencies are being attributed against three general categories of assistance as follows:

--- Projects being assisted by USAID which are not financed by the local currencies generated under PL 480 Title I;

--- Counterpart requirements of other donor financed on-going projects that will not be covered by the Caribbean Development Facility Loan III; and

--- Capital and recurrent budgets of GOJ programs in the agriculture, health, education, housing, and energy sectors.

The initial GOJ report on the actual project allocation of these funds thus far is provided at Annex C-3.

b) Programming of Local Currencies to be Generated Under Proposed Loan

At present exchange rates J\$71 million will be generated under the proposed US\$40 million balance of payments loan. These funds, except for J\$10 million which may be used for a public sector technical assistance activity described below, will be allocated for the same purposes and under similar criteria as employed for the previous balance of payments loan (532-K-014). The use of the local currency will be limited to JFY 82/83, except that with the permission of AID allocations of the local currency may be extended

into the first two quarters of JFY 83/84. AID and the GOJ will carry out a joint programming exercise and determine the specific projects to receive support which will be recorded in an expenditure document negotiated and signed by the parties.

Experience with the counterpart funds generated under the previous balance of payments loan indicates that the Ministry of Finance can deal with the accounting much more readily and accurately if a special account is created. Accordingly, the GOJ will be required to establish a special account at the Bank of Jamaica for the counterpart generated under this loan. This should greatly facilitate efforts to tie in disbursements with particular projects.

c) GOJ Public Sector Technical Assistance Program

Subject to further discussion with GOJ officials, as there is not yet final agreement on the matter, it is possible that J\$10 million, also included in the special account, may be used to support a GOJ technical assistance activity focusing on Jamaica's economic recovery. It would probably be administered by the Ministry of the Public Service in consultation with the Financial Secretary of the Ministry of Finance.

Many parts of the public bureaucracy are without the expertise required to carry out the multiple economic tasks contained in the IMF agreement. Low civil service salaries and the general emigration of highly skilled personnel during the previous regime have contributed to the deterioration of skill levels found in the public sector to the point where the public sector has now become an obstacle to the implementation of the recovery program and to private sector development. Without the technical competence to evaluate proposals put forth by the IMF/IBRD, administrators are often reluctant to alter the status quo and to implement the bold structural changes required in switching from a strategy of import substitution and state management to one of export promotion and reliance on the private sector. To help remedy this situation, it is thought that approximately J\$10 million should be used to support GOJ efforts to obtain the services of technical experts to work in critical areas of the public bureaucracy.

The technical experts would be primarily Jamaicans with advanced training in economics, agricultural economics, finance, taxation, etc., depending on the administrative task of the agency. The GOJ officials think that employment of some foreign or expatriate experts would be unavoidable but also beneficial. The program would also be expected to bring back to Jamaica some of the professional and skilled manpower that emigrated during the past decade. Salaries would be set competitive to international levels and designed to attract skilled Jamaicans living abroad.

Technical expertise would be targeted on specific areas where regulatory bottlenecks to private sector development are most acute or where public sector support of the private sector is inadequate. Several parts of the bureaucracy badly need technical staffing; for example, the Trade Administrator's Office of Tax Administration, Ministry of Industry and Commerce, Ministry of Finance, Jamaica National Investment Promotion, the new Agricultural Credit Bank, the new National Development Bank and the Jamaica National Export Corporation.

The benefits of this activity as foreseen by the GOJ go beyond improving the performance of such organizations at this critical time and beyond longer term institution building. There is a major interest in counteracting the brain drain. The GOJ expects that some 'centers of excellence' will develop around some of the technical experts or teams and is sure that under suitable arrangements some of the recruited experts will take on permanent positions in Jamaica. Several illustrative examples are provided below to indicate how technical experts function and contribute to Jamaica's economic recovery.

The Trade Administrator's Office handles the complex problem of issuing import licences and together with the Ministry of Industry and Commerce bears the responsibility of liberalizing import restrictions. The staff at the Trade Administrator's Office, however, has only two economists, neither of which have advanced training or experience. The Trade Administrator recognizes the need for reorienting the economy towards export promotion, but must answer to domestic industrialists if imports enter the economy. Were market studies available that would allow him to determine the size of the market, number of producers, and the price and employment effects of imports, he would be in a much stronger position to phase in the liberalizing reforms over the opposition of industrialists.

The Permanent Secretary of the Ministry of Industry and Commerce also shares the goal of export promotion. He recognizes the need to develop leading export industries, but feels it may not happen if structural adjustment is too abrupt. He has one staff person available to evaluate all of the IMF/IBRD proposals, who has no advanced training. Both of these parts of the bureaucracy could become effective agents of import liberalization if armed with additional capacity to evaluate proposals, to undertake market studies so as to create a program of phased-in import competition as suggested by the World Bank, and to argue persuasively with domestic industrialists and other parts of the bureaucracy. Moreover, once the strategy of export promotion and trade liberalization is in place, the program is much more likely to survive the difficult years of the transition if the public bureaucracy understands the program's objectives and rationale.

Tax reform and administration is another example. The Jamaica tax system is in need of reform as well as improved administration. If a two year technical team were available, revenue collection and tax reform would proceed much more rapidly. A one dollar investment in tax collection and reform could produce 50 or more dollars in additional revenues. USAID is already helping with planning and a study in this area, through the Technical Consultations and Training Grant, but an expert implementing team would ensure that AID's conceptual assistance is absorbed. The GOJ spends only J\$5-7 million annually in tax collection.

A fourth institution in need of technical expertise is the National Industrial Development Bank. The predecessor agency, the Jamaica Development Bank, went bankrupt because of poor administration. The new Bank, still in its formative stage, is designed to wholesale credit for development projects through commercial banks. Staffing of financial, business, and economic experts will probably proceed slowly unless some outside help can be provided. Yet, in the process of structural adjustment, producers in the private sector desperately need credit and their ability to convert to export production depends in no small measure upon their access to credit. Many of the same problems plague the new Agricultural Credit Bank.

There is no intention to make this use of counterpart an AID project. It is a GOJ program and intended to be flexible. The counterpart funds may be

used to support a variety of types of personnel, including those in senior executive service type positions and contract personnel. The GOJ intends to emphasize two year work assignments to the extent practicable to maximize the return from the program. It is reasonable to expect that at least six months to one year will be required to recruit and put in place any significant number of technical experts. To allow for the staffing period and two year work assignments, the GOJ would need to be allowed at least three years to disburse the counterpart local currency for this activity.

There are some drawbacks to the proposal to create technical teams. First, using J\$10 million of the counterpart funds in this way would require cutting back slightly on other programs (since funds are already programmed to finance the deficit, the limits of which are established by the IMF agreement); nonetheless, most officials recognize the severity of the crisis in the public sector and would welcome the opportunity to obtain technical expertise. Second, high salaries might produce some antipathy on the part of co-workers with lower pay; careful case-by-case review can obviate this problem. Third, all recruitment efforts will not be successful. Even with these problems in mind, it is our judgement that the risks are dwarfed by the potential gains in creating nuclei of skilled personnel to help facilitate the onerous transition occurring during the economic recovery program and remove the public sector obstacles to private sector development.

The creation of technical expertise would mesh well with other USAID projects, since it would strengthen administrative capabilities dealing with specific development projects. It would also compliment the foreign experts provided on contracts of shorter duration under the Technical Consultations and Training Grant, insuring that that assistance is more completely absorbed. To allow for the contingency that use of all the J\$10 million for the technical assistance activity may not prove feasible, AID would reserve the right to direct by implementation letter, following consultations with the GOJ, that the counterpart funds be disbursed in whole or in part for the support of other development projects.

B. Implementation Arrangements

Through the Cash Transfer mechanism, the loan will be disbursed upon satisfaction of Conditions Precedent directly to an account of the Bank of Jamaica at a U.S. Bank designated by the GOJ.

This disbursement will be made based on a request by the GOJ submitted to the Mission Director, USAID/Jamaica. The loan of U.S. dollars is to the GOJ which, in effect, sells them to the Bank of Jamaica (BOJ) for local currency. These Jamaican dollars will be immediately credited to a Special Account of the GOJ at the BOJ.

In accordance with a joint programming exercise to be carried out by AID and the GOJ, local counterpart funds in the Special Account will be disbursed for specific ongoing projects identified in the GOJ's 1981/82 budget as described in the preceding section, and up to J\$10 million may be disbursed for the GOJ public sector technical assistance program as directed above.

/11

AID HANDBOOK 4, App 3A	TRANS. MEMO NO. 4:6	EFFECTIVE DATE November 2, 1977	PAGE NO. 3A(1)-1
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3A(1) - COUNTRY 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 Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? No.
2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? GOJ is not controlled by the international Communist movement.
3. 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) debt is not denied or contested by such government? No.
4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including 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? No.
5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? No.

PAGE NO. 3A(1)-2	EFFECTIVE DATE November 2, 1977	TRANS. MEMO NO. 4:6	AID HANDBOOK HB 4, App 3A
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A.

6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No.
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? No.
8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? An investment guaranty agreement is in effect.
9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, No such action by Jamaica.
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by AID Administrator?
10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default? No.
11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).) Approximately 2.5% of most recent budget used for military expenditures. Approximately \$1.2 million (or .08% of budget) in FX has been spent for military equipment in the past 12 months. No sophisticated weapons systems have been procured.

AID HANDBOOK 4, App 3A	TRANS. MEMO NO. 4:6	EFFECTIVE DATE November 2, 1977	PAGE NO. 3A(1)-3
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A.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
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 AID Administrator in determining the current AID Operational Year Budget? Not in arrears.
14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base? No such military base in Jamaica.
16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No.
17. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? No. Jamaica is not a "nuclear-weapon state".
18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No.

B. FUNDING CRITERIA FOR COUNTRY1. Security Supporting Assistance Country Criteria

- a. FAA Sec. 572B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? Department of State has not determined that Jamaica has engaged in gross violations of human rights.

PAGE NO. 3A(1)-4	EFFECTIVE DATE November 2, 1977	TRAVEL MEMO NO. 4:6	AID HANDBOOK 4, App 3A
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81

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? Yes.

c. 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? N.A.

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment. N.A.

b. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assistance for population programs, humanitarian aid through international organizations, or regional programs? N.A.

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? N.A.

d. FAA Sec. 201(b)(5), (7) & (8); Sec 208; 211(a)(4), (7). Describe extent to which country is:

- (1) Making appropriate efforts to increase food production and improve means for food storage and distribution.
- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.
- (3) Increasing the public's role in the developmental process.

AID HANDBOOK 4, App 3A	TRANS. MEMO NO. 4:6	EFFECTIVE DATE November 2, 1977	PAGE NO. 3A(2)-1
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3A(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 Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Congressional Notification.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

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?

N.A.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions 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.

Loan will provide foreign exchange for increased imports, including equipment and materials to enable private firms to expand production and initiate productive activities.

PAGE NO. 3A(2)-2	EFFECTIVE DATE November 2, 1977	TRAIL MEMO NO. 4:6	AID HANDBOOK 4, App 3A
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A.

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

The assistance will promote trade linkages with U.S. and increased U.S. imports.

6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

GOJ budgets and provides counterpart funds and Mission periodically reviews level of contributions with Ministry of Finance and operating Ministries.

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

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

Will assist Jamaica in meeting present critical foreign exchange deficit, thereby permitting import of essential food, as well as materials and equipment for productive activities.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N.A.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

N.A.

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TELEGRAMINDICATE
 COLLECT
 CHARGE TO

	FROM Amembassy KINGSTON	CLASSIFICATION UNCLASSIFIED	
:2065 E.O. 11652 TAGS: SUBJECT: ACTION: DIST: AMB • DCM RF CHRON • AID-5 • CT 6	N/A Technical Consultations and Training Grant (532-0079): Additional Funding Secstate WASEDC <u>IMMEDIATE</u> UNCLASSIFIED KINGSTON <u>7417</u> AIDAC Please pass AA/PRE E. Dupont and AA/GC J. Bolton 1. SUMMARY: Mission considers subject Grant to be one of the most valuable tools to respond flexibly to support private sector initiatives in Jamaica and places the highest priority on its continuation. Activities now in implementation or about to begin are directly keyed to promotion of investment, productivity and export. Many are directly linked with and supportive of activities of the U.S. Business Committee (Rockefeller Committee) and its Jamaican counterpart. If such a fund had not been available over the past several months, overall U.S. development strategy here would have been far less effective. Mission requests additional funding of \$3 million and approval for Mission Director to authorize project following completion of PP addendum for Project amendment. Continuation of this activity, however, is contingent upon AID/W approval		
DRAFTED BY: AID:PROG:Drathbun:ccl	DRAFTING DATE 9/8/81	TEL EXT. 292,293	CONTENTS AND CLASSIFICATION APPROVED BY: DIR:G.P. Peterson

CLEARANCES:

CAP:WJones (i draft)

UNCLASSIFIED

CLASSIFICATION

OPTIONAL FORM 153
(Formerly FS-613)
January 1975
Dept. of State

on a position for a senior U.S. Private Sector officer, a Jamaican secretary and a Jamaican assistant, as previously requested by Mission. End Summary

2. The subject ESF-funded \$1 million grant, which was signed on June 5, 1981, has proven to be the single most useful resource available to the Mission in its efforts to support Jamaica's economic recovery program and in particular to support efforts at private sector encouragement and stimulation. It is proving an invaluable tool for USAID to work closely with the Rockefeller Committee and their Jamaican counterpart in a whole range of activities related to investment, export, management training and fostering relationships between U.S. and Jamaican private firms. The broad scope of the Grant and the streamlined implementation procedures developed in cooperation with the GOJ have enabled the Mission to target assistance on critical areas and to provide assistance in a timely fashion so as to maximize its impact.

3. Since the Grant was signed, over \$538,000 worth of activities have been carried out or will be completed in the near future. Additional activities totaling approximately \$321,000 have been

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identified and are currently under consideration. These activities are summarized below.

4. Activities Completed or In Progress

A. Natural Resources Assessment for Investors (US\$292,000)-

A PASA agreement is currently being negotiated with the USDA to provide a natural resources assessment to determine physical resource availability for investment purposes and for national agricultural planning purposes. This is directly related to processing and responding to newly developed private investor interest in export and processing of non-traditional crops, e.g. horticulture, pineapples, etc.

B. Jamaican Agricultural Investment Guide (US\$222,000)-

A second PASA agreement is currently being implemented, also with USDA, to provide an assessment of investment/trade opportunities for private sector agribusiness investment in Jamaica.

C. Training Course - World Trade Institute (US\$7,500) -

Two Investment Promotion Officers from the Kingston Free Zone have completed a two-week training course

sponsored by the WTI in New York. This and future training for officials of the Kingston Free Zone emphasizes a systematic approach to investigation, evaluation and implementation of investment promotion strategies aimed at the North American market.

D. Technical Assistance - Jamaica National Investment Promotion, Ltd. (US\$17,000) -

Two consultants are currently under contract with the JNIP to assist in the appraisal and evaluation of more than five hundred investment inquiries which have been received from a variety of U.S. and other industrial and agribusiness interests. These consultants will also provide written recommendations relative to appropriate procedures to be followed in the actual implementation of specific investment proposals accepted by the JNIP.

5. Additional Activities Currently Under Active Consideration:

A. Proposal from the Garment Development Council of the Jamaica Industrial Development Corporation to develop a marketing strategy for the Jamaica apparel industry export program - Primary focus will be on new markets in Western Europe and South America. (US\$91,000 est.)

B. Consultancy to JNIP to review the entire process of investment promotion and management and producing a plan of organization development over the next year in order to improve the management capabilities of the agency. (US\$25,000 est.)

C. Contract between the Kingston Free Zone and Production Sharing International, Ltd. to promote increased industrial/commercial employment opportunities. (US\$50,000 est.)

D. Consultancies, orientation visits and overseas training to assist the Caribbean Cement Company in its efforts to: (1) expand plant operations; (2) convert from a wet to a dry production process; and (3) convert from oil to coal firing. (US\$70,000 est.)

E. One-month economic development training program for Investment Promotion officers from the JNIC and the Kingston Free Zone with special emphasis on techniques for dealing effectively with U.S. corporate executives. (US\$15,000 est.)

F. Technical assistance in the field of tropical flowers and ornamental plants for potential exporters of these products. The proposed assistance would be provided

through the Jamaica Export Trading Company and is intended to cover all aspects of production.

(US\$50,000 est.)

G. Provision of an on-line marketing intelligence system to provide Jamaican exporters with information needed to enter and remain in the U.S. market. The service, which will be provided through the JNEC Trade Commissioner Service in conjunction with the World Trade Institute, is aimed at the manufacturing sector, agro-products, agro-industry and natural resource-based industry. (US\$30,000 est.)

H. Consultancies to develop Management Training Program for Jamaica Institute of Management and other institutions. U.S. experts will help organize seminars for training of Jamaican private sector management in areas of direct impact on productivity and export. These will be in such areas as labor-management relations, export promotion, forming a joint venture, etc.
(US\$40,000)

I. Contract for one year to provide Jamaican Site Management Engineers to the Sites and Services Division

of the Ministry of Construction in order to accelerate implementation of both ongoing and proposed Housing Investment Guaranty projects. (US\$20,000 est.)

J. Two-week consultancy to review and evaluate the GOJ proposal for additional assistance to revitalize and reorganize the tax administration system. (US\$3,000 est.). This is expected to be followed by longer-term consultancy to develop broad program of tax administration improvement.

6. Activities identified above total US\$949,000, and Mission anticipates original \$1 million will be exhausted within the next several weeks. Mission places great importance on continuing this type of short-term assistance in fields which are key to the success of Jamaica's reliance on private sector-led recovery.

7. The following list is illustrative of the kinds of activities that would be carried out with \$3 million additional funding:

A. ASSISTANCE TO EXPAND PRESENT LEVELS OF PRODUCTION PARTICULARLY IN PRIVATE SECTOR -

Jamaica's economic base is already fairly diversified. A wide range of manufacturing activities are

currently being undertaken, but with very few exceptions they are highly inefficient and only use a fraction of their productive capacity.

(i) Cooperative Technical Assistance Program

A joint U.S.-Jamaica, cooperative program, as proposed by USAID and the U.S. Business Committee on Jamaica, would be established to arrange for the services of technical experts from U.S. firms to be made available to privately-owned Jamaican firms to assist in technology transfer and improved management. The program would be managed from the United States. USAID could finance travel and some administrative expenses, but the cost of salaries will be borne by the U.S. firms. Possible cost: \$200,000.

(ii) Technology Transfer Program

Pilot project involving six Jamaican manufacturing firms which have expressed an interest in expansion and technology transfer agreements with U.S. firms. (Est.: \$150,000)

(iii) Garment Industry

Six-week training courses to upgrade skills of approximately 100 garment workers. Courses will be

offered through the facilities of the Jamaica Industrial Development Corporation. Emphasis would be on pattern cutting, sewing synthetic fabrics and quality control. (Est.: \$75,000)

(iv) Footwear Manufacturing

Visits to footwear manufacturing operations in the United States by 4 to 6 Jamaican manufacturers who are members of the Small Business Association. Purpose of the visits would be to familiarize the Jamaican manufacturers with U.S. technology, plant layouts, and to seek out cooperative ventures.

(Est.: \$10,000)

(v) Small Business Association (SBA)

Instructor for costing techniques/methods to provide training for approximately 10 SBA trainees.

(Est.: \$18,000)

(vi) Private Sector Organization of Jamaica -

Visits to U.S. industrial and light manufacturing operations (canning, battery manufacture, agricultural chemicals) by four members of the PSOJ. Participants will study latest U.S. techniques and establish contacts for future supply and technical assistance agreements. (Est.: \$5,000.)

(vii) Observation Visit: Floriculture -

Observation visits by 2 people to shrub and flower packaging operations in Florida or Hawaii. Visits are key components of GOJ plan for development of major floriculture/horticulture industry. (Est.: \$10,000.)

(viii) Citrus Production -

Eight-month consultancy to Jamaica National Export Corporation to improve citrus processing plant operations. (Est.: \$80,000.)

B. MANAGEMENT TRAINING, IMPROVEMENT AND RECRUITMENT -

Over the past eight years, Jamaica experienced a major exodus of skilled personnel. This is particularly true of middle-level managers. The scarcity of persons with these skills is a major impediment to increased efficiency and production:

(1) Recruitment Campaign -

An estimated 30,000 highly trained, experienced Jamaicans whose skills are urgently needed live outside Jamaica. An advertising and recruiting campaign in Washington, D.C., London, New York and Toronto would be launched with the help of Jamaican Embassies, High Commissions and Consulates. The goal would be to persuade at least 200 highly skilled Jamaicans to return to their native country. (Est.: \$30,000)

(ii) Private Sector Organization of Jamaica -

Provision of short-term consultants for middle-level management training courses for the Private Sector Organization of Jamaica. (Est.: \$70,000)

(iii) Jamaica Hotel and Tourist Association -

Provision of instructors for training of management and supervisory personnel of Jamaica Hotel and Tourist Association members. (Est.: \$35,000)

(iv) Jamaica International Telecommunications Ltd.(JAMINTEL)

Short-term training for management of JAMINTEL to upgrade skills in budgeting and personnel management. (Est.: \$35,000)

(v) Project Analysis and Monitoring Company -

Short-term training for 26 people to improve skills in project planning and management.

(Est.: \$45,000)

(vi) National Development Agency -

Training for NDA personnel in international procurement, project management, project appraisal and information processing. (Est.: \$78,000)

(vii) Cooperative Development Centre -

Two consultancies to assist the Cooperative Development Centre improve management and develop improved financial accounting systems for agricultural cooperatives. (Est.: \$80,000)

C. INVESTMENT PROMOTION

Jamaica's economic recovery program is heavily dependent upon securing major new foreign and domestic investment. A number of different grant-financed activities are designed to increase the probability of securing this investment:

(1) Investment Promotion, Processing and Negotiation -
Jamaica National Investment Promotion Ltd.

Follow-on assistance in evaluation of investment proposals, development of promotion strategy, training

of key staff in such areas as facilitating joint ventures, etc. (Est.: \$135,000)

(ii) Tourism -

Six man-month consultancy for preparation of tourist industry development master plan. An approved master plan must be developed before serious consideration can be given to proposals for major tourist industry development. (Est.: \$65,000)

(iii) Banana Industry -

Short-term consultants to review present structure and aspects of marketing in the banana industry as well as observation visits of Jamaicans to help assess the feasibility of a banana fiber industry in Jamaica. (Est.: \$54,000)

D. ASSISTANCE TO GOJ IN FINANCIAL AND ECONOMIC
MANAGEMENT

GOJ and USAID have held discussions on desirability of broad reforms in management of public sector finances,, but until recently no formal requests for assistance have been received by USAID.

Key element of any reform would be GOJ revenue collection system. Over last 10 years GOJ tax administration system has deteriorated to such an extent that the GOJ economic recovery program is seriously threatened by shortfalls in revenue flows. In addition, the recovery program is hampered by absence of an adequate mechanism for ensuring that broad policy decisions are reflected in allocations of financial resources and manpower.

(i) Tax Administration -

The GOJ requires substantial technical assistance to help develop and maintain an effective tax administration system. The new system will consolidate the functions of three revenue departments in a single Board of Revenue and help ensure that future revenue flows will be sufficient to carry out the economic recovery program. (Est.: \$400,000.)

(ii) Budget and Economic Management -

Assistance to the GOJ in establishing new institutions and systems to improve the overall economic and financial management of the government so that overall governmental

decisions can be reflected in financial and personnel allocations. Such assistance would include development of management information systems, financial control mechanisms and extensive training. An initial diagnostic effort will be conducted in October, 1981.

(Possible cost: \$400,000)

E. ACTIVITIES RELATED TO IMPROVEMENT OF INFRASTRUCTURE AND PUBLIC SECTOR ORGANIZATIONS

Jamaica is relatively well served by public utilities (electricity, water, transport) and development-oriented public and para-statal organizations. Unfortunately, in recent years much of Jamaica's infrastructure has deteriorated or has not been modernized in order to meet the demands imposed by new investors and increased economic activity. The same holds true for many key government and para-statal bodies. If economic recovery is to occur, many of these problems will have to be addressed.

(1) Jamaica Public Service Company Limited

A major disincentive to investment in Jamaica is the lack of a reliable supply of electricity. The Jamaica Public Service Company's 5 gas turbines have a

maximum generating capacity of 470 megawatts, but at the moment only 2 are in operation. Two consultants are needed for approximately 4 months to assist the JPSC in pinpointing major problems and advising on proper maintenance of the 5 General Electric turbines to help ensure uninterrupted electrical service in the future.

(Est.: \$40,000)

(ii) Urban Development Corporation (UDC)

Consultancy to review operations of UDC, develop long-term organizational development program and recommend short-term changes to streamline operations.

(Est.: \$50,000)

(iii) Ministry of Construction

Provision of four civil engineers to assist in the accelerated implementation of new GOJ housing schemes.

(Est.: \$150,000)

(iv) Small Business Association (SBA)

3 months of consultant services to develop a marketing strategy for the SBA. (Est.: \$50,000)

(v) Divestment

4 man-month consultancy to assist the GOJ with divestment efforts. (Est.: \$50,000)

(vi) Port Authority

Consultancy (3 months) to improve customs, operations and records. (Est.: \$25,000)

(vii) Ministry of Agriculture

Consultancy services of one agricultural economic planner to assist in the development of the Agricultural Planning Unit. (Est.: \$40,000)

(viii) National Development Agency (NDA)

Services of one computer systems expert to evaluate and redesign the existing management information systems of the NDA. (Est.: \$80,000)

Consultancy to assist the NDA with the re-establishment of a construction cost information bureau.

(Est.: \$30,000)

(ix) Jamaica Railway Corporation (JRC)

Mechanical and civil engineering consultancies related to revitalization and upgrading for Jamaica Railway Corporation. Uninterrupted operation of the JRC is essential to smooth functioning of the bauxite industry. (Est.: \$100,000)

(x) Irrigation

Consultancy on Yallahs River Diversion Scheme.

The scheme would greatly increase the availability of arable land in the southeastern section of the island and would create new opportunities for agribusiness investment. (Est.: \$2,000)

(xd) Airport Management Improvement Consultancy

A one-month consultancy involving a team of up to five persons. Special emphasis would be placed on improved cargo handling and streamlining customs procedures. (Est.: \$50,000)

F. PRIVATE VOLUNTARY ORGANIZATIONS

Jamaica has a very extensive network of well established voluntary organizations. With such groups, a very small amount of outside funding can stimulate greatly increased levels of activity that provide direct benefits to the poorest citizens.

Presently, many such organizations are providing skills training for women and youths in such areas as industrial sewing, auto mechanics, woodworking, furniture manufacturing, electronics and construction. USAID/Jamaica is exploring the development of a foundation under the possible patronage

of the Governor-General which would be supported by private sector contributions and complemented by some AID funding to finance local PVO efforts in skills training. An estimated \$75,000 could be contributed to help staff out the foundation idea and another \$300,000 to skills training through PVOs.

8. In view foregoing, Mission wishes obtain \$3 million additional funding and proceed to obligation soonest. Request AID/W process Congressional Notification, as necessary, provide allotment of additional funds, and approve field Mission Director authorization of Project amendment. Mission will proceed with PP Addendum. Please advise ASAP.

9. Mission however wishes to note one caveat. This grant is the most useful component in our continuing development dialogue with the GOJ and particularly in supporting private sector initiatives and the work of the U.S. Business Committee. However, it is extremely labor-intensive even when all contracting logistics are arranged by GOJ. Present USAID staff has been to the extent possible redeployed to handle aspects of this extremely important program. However, we cannot continue this activity at this level without AID/W approval

of a previously requested Senior Private Sector Officer position,
as well as 2 local positions for a Jamaican secretary and
assistant. Mission strongly hopes that AID/W too will redeploy
its very tight personnel ceiling to accommodate this highest
impact activity.

LAWRENCE



ALLOCATION OF LOCAL CURRENCIES GENERATED
UNDER FY1977 CIP LOAN AND PL480
AGREEMENTS FY77-FY80

(J\$ millions)

Sector/Activity	Allocations from Special Accounts		
	JFY 1978/79	JFY 1979/80	JFY 1980/81
A. Agriculture & Rural Development			
Integrated Rural Development	1.216	2.015	2.300
Inland Fish Production System	0.545	0.565	1.500
Rural Roads Improvement	1.267	1.000	--
Marketing Improvement	0.350	0.200	--
Agricultural Census	0.910	0.450	--
Small Enterprise Dev./M.S.U. (Off Farm Emp.)	0.100	0.100	--
Rural Financial Markets/O.S.U.	--	0.030	0.078
Agricultural Planning	0.075	0.005	0.600
Agricultural Research	0.300	0.100	0.100
Extension and Education			
Farm System Development	0.100	0.178	--
Expansion of Blue Mountain Coffee	--	0.662	0.662
Agricultural Marketing Development	--	--	0.300
Agricultural Marketing Development	--	--	3.000
Road Construction and Improvement (Parishes)			
Jamaica School of Agriculture	--	--	2.366
	<hr/>	<hr/>	<hr/>
Sub.	4.863	5.305	10.906
B. Education & Human Resource Development			
Rural Education Sector Loan	--	5.537	3.500
Manpower Planning, Training & Employment	--	0.260	0.991
Project Development Resource Team (PAMCO)	--	0.120	0.400
Special Education for Handicapped	0.056	0.056	0.040
In-service Curriculum Training	--	0.073	0.100
Training for Development	--	--	0.250
Vocational Training	--	--	13.405
	<hr/>	<hr/>	<hr/>
Sub.	0.056	6.046	18.686

Sector/Activity	Allocations from - Special Accounts		
	1978/79 Actual	1979/80 Actual	1980/81 Estimate
C. Health, Nutrition and Family Planning			
Family Planning Services	2.018	--	3.779
Health Improvement for Young Children	0.009	--	0.305
Vital Statistics (VISTIM)	0.036	--	0.184
Emergency Feeding Program	0.083	--	0.058
Client Data System	--	--	0.462
Contract Assistance to Central Foods Health and Nutrition Sector	--	--	0.510
Development	--	--	4.100
Primary Health Care	--	--	5.527
	<hr/>	<hr/>	<hr/>
Sub.	2.146	--	14.925
D. Urban Development and Housing			
Urban Upgrading	0.254	0.725	1.500
Squatter Settlements	--	0.966	6.100
	<hr/>	<hr/>	<hr/>
Sub.	0.254	1.691	7.600
Total	7.319	13.042	52.117
Grand Total			72.478

ALLOCATION OF LOCAL CURRENCY GENERATED

UNDER FY 1981 PL 480 AGREEMENT

(1) <u>On-going Institutional Projects</u>		
Minor Water Supply		J\$2.250 m.
(2) <u>Other Government of Jamaica Projects</u>		
Cornwall County Health Administration		6.230 m.
South East Area Health Administration (formerly Kingston and St. Andrew Primary Health Care)		8.100 m
Portland Health Administration		0.830 m.
St. Mary Health Administration		1.070 m.
St. Ann Health Administration		1.020 m.
Manchester Health Administration		1.170 m.
Clarendon and St. Catherine Health Administration		2.990 m.
Child Feeding Service		0.360 m.
Nutrition Program		0.220 m.
Family Palnning		1.506 m.
Health Improvement for Young Children		0.804 m.
Vital Statistics (VISTIM)		0.131 m.
Client Data System		0.083 m.
	Total	26.764 m.

ACTIVITY STATUS REPORT FOR QUARTER ENDING 30th JUNE, 1981

ALLOCATION OF JAMAICA COUNTERPART FUNDS - USAID PRODUCTION AND EMPLOYMENT LOAN I

NAMES OF PROJECT	COUNTERPART ALLOCATION J\$m	
<u>US/AID ASSISTED PROJECTS</u>		
Inland Fisheries Development	1.600	
Rural Education Section	1.200	
Squatter Upgrading (HIG)	5.200	
<u>PROJECTS ASSISTED BY OTHER DONORS</u>		
Second Population Project (IBRD)	2. 00	
Road Improvement and Maintenance Project (IBRD)	7. 00	
Arterial Roads - Third Highway Project (IBRD)	2. 00	
Onshore Gas and Oil (IDB)	4.100	
Primary Schools - Project Primer (VIVDP)	0.100	
Primary Schools - Community Assisted Projects (EEC)	1.500	

ACTIVITY STATUS REPORT FOR QUARTER ENDING 30th JUNE, 1981ALLOCATION OF JAMAICA COUNTERPART FUNDS - USAID PRODUCTION AND EMPLOYMENT LOAN I

NAME OF PROJECT	COUNTERPART ALLOCATION J\$m	
<u>GOVERNMENT OF JAMAICA DEVELOPMENT ACTIVITIES</u>		
Development of Land Settlement	4.000	
Crop Research	0.330	
Coffee Borer Control	2.500	
Nursery Production	3.500	
Subsidy Assistance Programme	5.500	
Crop Care Project	2.500	
Food Farm Project	0.400	
Agricultural Engineering Services	4.000	
Minor Irrigation	2.000	
Food Crops - Small Farmers Loan Program	5.000	
Livestock Research	0.600	
Forest Development	2.750	
Fisheries Development (Offshore)	1.100	
Soil Conservation Works	1.100	
Farmers Training Centres	0.275	
Farm Credit	2.973	
Hospital Services	1.365	
Public Health Services	7.337	
Primary Sch. Construction & Capital requirements	1.025	
Secondary Schools	0.493	
Vocational Training Centres	0.740	
Energy Development	0.780	
Student Revolving Loan Fund	2.500	
Seed Farm Project	1.000	
Dairy Industry Improvement	1.000	

9/2