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BY THE COMPTROLLER GENERAL

**Report To The Honorable  
Richard S. Schweiker**

OF THE UNITED STATES

**U.S. Response To Jamaica's Economic Crisis**

RELEASED

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This report deals with the extent to which economic deterioration and political problems in Jamaica hinder the Agency for International Development from having a successful program of project assistance and balance-of-payment support. GAO found that the projects are experiencing several problems, some of which are due to the economic conditions. For the most part, the problems are manageable. However, given Jamaica's lack of financial and managerial resources, the projects will surely suffer if the Jamaican economy deteriorates further. GAO also found that the Agency's monitoring and evaluation of U.S. support to Jamaica through the Caribbean Development Facility is inadequate and has recommended improvements.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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The Honorable Richard S. Schweiker  
United States Senate

Dear Senator Schweiker:

This report discusses the potential adverse effects that Jamaica's declining economy and tense political situation is having on the Agency for International Development's program. It also shows that the Agency does not adequately monitor its contributions to the Caribbean Development Facility.

We made this review pursuant to your September 10, 1979, request. The scope of the review was determined during subsequent meetings with your office.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James G. Heath".

Comptroller General  
of the United States



D I G E S T

Assistance from the Agency for International Development (AID) to Jamaica increased sharply in 1977 with balance-of-payment support and developmental aid of nearly \$30 million. This increase reflected the U.S. interest in the Caribbean and a concern for the economic deterioration of a neighboring nation. Despite efforts of the United States, Jamaica, and other donors to halt the decline, the economic situation remains critical with little hope of immediate recovery. (See p. 2.)

Jamaica's balance-of-payment position has suffered as a result of the rise in oil prices, a decline in tourism, a high level of commodity consumption, an undiversified export economy, and a capital outflow partly due to Government of Jamaica policies. Negotiations between the Government of Jamaica and the International Monetary Fund were unsuccessful in reducing the Government's budget to promote economic stabilization and recovery. Compounding matters, sufficient alternative funding sources have not been identified. (See ch. 2.)

Nearly all of AID's projects in Jamaica have problems, including inadequate project planning, poor commodity procurement, inability of the implementing agency to manage the project or differences between AID and the Government of Jamaica concerning project goals and interest. Though these problems are sometimes serious, they are usually manageable. (See ch. 3.)

The problems that are most worrisome are those related to Jamaica's failing economy. AID projects must operate in a climate where local commodities are often in short supply, there are not enough managers and other skilled people, basic infrastructure is deteriorating, inflation is high and the host Government's budget is strained. AID and Jamaican officials are generally confident that the Government

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will be able to continue each project once AID support of the project ends. However, given the economic conditions that exist in Jamaica which have threatened Jamaica's ability to absorb additional project assistance, project expansion may be difficult. If the Jamaican economy stabilizes or improves, AID's projects have a reasonable chance for success. If the economy deteriorates further, AID's projects will surely suffer. (See p. 38.)

Since 1978, AID has also committed \$21 million to Jamaica through the multilateral Caribbean Development Facility. The Facility finances the local contribution to donor-assisted development projects, thereby permitting recipient governments to use external project assistance available to them. (See p. 41.) Countries are eligible for project assistance provided that agreement has been reached on appropriate development and investment programs. Jamaica's failure to maintain a stable economy could jeopardize Jamaica's accessibility to Facility funding. (See p. 49.)

The annual evaluation of AID input to the Facility (September 1979) generally did not comment on the ability of the participating country to meet specified targets. AID relies on other sources to assure project progress and compliance without performing its own independent evaluation and project site visits to verify and supplement information obtained from prime donors. In addition, the AID staff does not directly nor routinely receive project progress reports or spot check to assure proper use of funds. (See p. 50.)

#### AGENCY COMMENTS

AID officials agreed with most of GAO's conclusions but believe that the report over-emphasized Jamaica's limited absorptive capacity, and that GAO's initial suggestions regarding AID support to the Caribbean Development Facility should be clarified.

The suggestions were amplified, as presented below. (See p. 50.)

## RECOMMENDATIONS <sup>1</sup>

U.S. support to the Caribbean Development Facility requires better monitoring and evaluation. Therefore, GAO recommends that the AID Administrator

- improve the frequency of transmission of prime donor project monitoring reports to assure full awareness of project progress and problems. AID should also insure that AID staff periodically visit project sites to supplement and verify information provided by prime donor reports.
- improve the evaluation process so that project evaluations provide for on-site visits and address all major issues dealing with (a) project progress vis-a-vis planned targets and objectives, and (b) feasibility questions as they might arise. (See p. 51.)





# C o n t e n t s

## Page

DIGEST

CHAPTER

1	INTRODUCTION	1
	An economic crisis	1
	The U.S. response to Jamaica's needs	2
	Assessing the current situation and its effect on AID's program	2
	Scope of review	2
2	POLITICAL AND ECONOMIC SITUATION REMAINS TENSE	4
	Impact of Government policies on the economic crisis	4
	Major industries experience problems	6
	Further strains on the economy	8
	Need for donor coordination	10
	U.S. policies affecting Jamaica	10
	Assessment of private- and public-sector relationships	11
	Government of Jamaica actions to reverse economic decline	12
	Conclusion	14
3	AID STRESSES ECONOMIC RECOVERY AND LONG-TERM DEVELOPMENT	15
	AID funding demonstrates degree of problem	15
	AID strategy for Jamaica	18
	Agriculture, rural development and nutrition	19
	Education and human resources	24
	Health and population	28
	Balance-of-payment support	32
	Selected development activities	37
	Impact of current events on AID's program	38
	Agency comments and our response	39
4	THE CARIBBEAN DEVELOPMENT FACILITY	41
	CDF--a mechanism for assistance	41
	Inadequate monitoring and evaluation of AID/CDF projects	48
	Conclusions	49
	Agency comments and our response	50
	Recommendations	51

APPENDIX

I	Donor assistance to Jamaica	52
II	Average exchange rate	56
III	Status of AID projects active as of March, 1980	57
IV	Agency comments	58

ABBREVIATIONS

AID	Agency for International Development
CDF	Caribbean Development Facility
GAO	General Accounting Office
HIG	Housing Investment Guaranty
IMF	International Monetary Fund
LAC/CAR	Bureau for Latin America and Caribbean, Office of Caribbean Affairs, AID
P.L. 480	Food for Peace (Public Law 480)
RDO/C	Regional Development Office/Caribbean, AID

## CHAPTER 1

### INTRODUCTION

Jamaica, with an area of 4,411 square miles, is the third largest of the Caribbean islands. Located 90 miles south of Cuba and 100 miles west of Haiti, Jamaica is the largest of the English-speaking countries in the region.

Jamaica's population is about 2 million, with over 600,000 residing in the capital city of Kingston. Historically, the economy of Jamaica has been mainly agricultural with dependence on a few staple export crops, particularly sugar and bananas. New economic development began with bauxite mining after 1952, and the tourism boom in the 1950s and 1960s. This stimulation resulted in substantial development in the construction industry and manufacturing. Jamaica's adequate physical infrastructure, proximity to a large market and fairly high literacy rate also contributed to the nation's rapid economic growth during the 1960s and early 1970s.

### AN ECONOMIC CRISIS

In the mid-1970s, international recession revealed the structural weaknesses of Jamaica's economic system. This, combined with domestic socioeconomic problems, adversely affected output in construction, mining, agriculture, manufacturing and tourism.

Since 1972, the real gross domestic product (per capita) has dropped almost every year to a cumulative decline through 1978 of 20 percent. The Government of Jamaica's strategy of expanding the role of the public sector, employment promotion, redistribution of income, and economic diversification, created an atmosphere of uncertainty with the immediate result of reducing investment activity by private industry. The situation was further aggravated by increases in petroleum and other commodity prices, the world recession in 1974-75 (in part affecting tourism), the drying up of foreign commercial bank lending, and labor problems in key sectors. This was accompanied by the migration of skilled and professional personnel and a massive outflow of capital.

The economic program started in 1977, with the support of the International Monetary Fund (IMF), achieved some success in reducing the budget deficit, holding back imports, and curbing expansion of the money supply. But the program has failed to date to restore private-sector confidence or to

establish the basis for economic growth. Unfortunately, Jamaica's economic prospects at the beginning of 1980 appear bleaker than ever.

#### THE U.S. RESPONSE TO JAMAICA'S NEEDS

The U.S. administers its bilateral assistance program to Jamaica through the Agency for International Development (AID) mission in Kingston. Before 1977, economic assistance to Jamaica averaged \$4 million a year. Jamaica's economic difficulties led to a dramatic increase in funding; AID designed a bilateral assistance package totaling more than \$65 million for fiscal years 1977-78. The package emphasized foreign exchange and balance-of-payment assistance and projects to promote long-term growth. Despite substantial U.S. and other donor assistance since 1977, the Jamaican economy continues to deteriorate. AID recognizes that it does not have the resources to solve Jamaica's current major economic problems, so its 1981 strategy will focus on longer range development. Production, productivity, and employment will be emphasized in agriculture, energy, urban development, family planning, and management training.

#### ASSESSING THE CURRENT SITUATION AND ITS EFFECT ON AID'S PROGRAM

Ever-tightening budget restrictions and the continuing departure of key personnel can inhibit development efforts, particularly those aimed at helping the rural poor people. Jamaica's limited ability to absorb additional assistance can also affect any planned program expansion.

#### Scope of review

On September 10, 1979, Senator Richard S. Schweiker of the Foreign Operations Appropriations Subcommittee requested that GAO determine whether the current economic and political situation in Jamaica could prevent a successful AID program. In addition, we agreed to specifically look at allegations associated with the P.L. 480-Food for Peace Program in Jamaica, and the results of U.S. regional assistance to Jamaica through the multilateral Caribbean Development Facility (CDF).

In response to Senator Schweiker's concerns about Jamaica we did a broad review of the U.S. assistance program to Jamaica from its inception in the 1950s to the present, concentrating on the recent 1977-80 period and looking at the future program prospects. We interviewed key personnel

in AID, Department of State, Caribbean Development Bank, World Bank, IMF, Government of Jamaica, and the private sector. From January 21 to February 15, 1980, we visited the AID mission, and the regional office in Bridgetown, Barbados. We reviewed pertinent records, discussed program progress, and observed several current projects. We kept informed on the economic and political environment through daily newspaper and radio accounts while in Jamaica, and through a review of 1979 and 1980 U.S. periodicals.

## CHAPTER 2

### POLITICAL AND ECONOMIC

#### SITUATION REMAINS TENSE

U.S. political and economic analysts agree that a combination of external and internal events contributed to Jamaica's economic decline. Externally, the rise in oil prices and the recession in the United States were two uncontrollable events. Oil price increases in a country which is dependent on foreign sources for practically all of its energy requirements played havoc with the country's foreign exchange and balance of payments, while at the same time, Jamaica's traditional exports suffered from a decrease in production. In addition, tourism, Jamaica's second largest foreign-exchange earner, seriously declined as a result of the recession, bad publicity, and rising crime.

Internal events which contributed to the economic decline are the increase in Government spending for massive social reform programs and the failure of the Government to attract adequate new private investments. The latter is linked closely to the Government's socialist rhetoric.

#### IMPACT OF GOVERNMENT POLICIES ON THE ECONOMIC CRISIS

On August 6, 1962, Jamaica, a former British colony, became independent. The Jamaican Labor Party was elected in 1962 and remained in power until 1972 when, according to a U.S. Embassy official, alleged political corruption and intense inparty opposition led to a win by the People's National Party headed by Michael Manley.

During the 1960s and early 1970s, the economy expanded rapidly because of the productive bauxite and tourism industries. These industries represent most of Jamaica's export earnings, and bauxite mining surpasses the agricultural earnings in contributing to the Gross National Product.

The success of the Jamaican economy preceding 1972 provided the incentive for the new Government to embark on ambitious development and social programs to help the poor and promote economic independence. Jamaica pursued a policy of nonalignment in its foreign relations and sought to diversify its international trading links. The Government also began a policy of increased intervention in bauxite processing and became more directly involved in the economy's management by imposing a freeze on wages and imposing price controls, nationalizing three foreign-owned banks, and assuming ownership of the majority of the media.

In addition to these policy decisions, a 5-year (1978-82) development plan set basic priorities for social justice directed at employment, housing, food, and education. Although these priorities were admirable, the Government lacked the financial and managerial resources to adequately sustain these efforts.

#### Decline in Jamaican economy

Jamaica's balance-of-payments has been in deficit every year since 1972, with the exception of 1974. The deficits increased drastically in the mid-1970s. The overall deficit rose from \$74 million in 1975 to over \$250 million in 1976, then declined to \$88 million in 1977. Much of the improvement in 1977 was obtained through a tight squeeze on imports by means of import licensing and foreign exchange controls. This significantly affected output, consumption, investment, and employment. The deficit rose again to \$107 million in 1978 and now totals over \$131 million.

Many factors contributed to Jamaica's difficult balance-of-payment situation. These include the quintupling in the price of oil since 1973; the undiversified nature of the export economy which relies very heavily on the exportation of bauxite and alumina; failure of some of the country's export earnings to keep up with the rise in the price of its imports; the nearly 40-percent decline in net tourism receipts between 1974 and 1977 as a result of crime, poor publicity, and the 1975-76 recession in the United States; the unsustainable level of commodity consumption in Jamaica; and the substitution, since 1975, of a significant net private capital outflow for the traditional capital inflow, partly as a result of Government policies. From 1975 to 1978, the per capita gross domestic product in 1978 U.S. dollars declined from \$1,424 to \$1,143.

Although Jamaica's democratic institutions remain strong, the political structure of the 1960s which created an environment conducive to capitalistic development and economic growth has, according to various periodicals, become more socialistic in nature. This has alienated investors, intensified the migration of the middle class, encouraged left-wing organizational growth, and contributed to the decline of the country's economic development.

#### MAJOR INDUSTRIES EXPERIENCE PROBLEMS

Jamaica's three major industries--bauxite/alumina, agriculture, and tourism--suffered substantial declines in

productivity during the mid-1970s. However, some of the adverse trends appear to be reversing.

#### Bauxite/alumina

Five companies run Jamaica's bauxite and alumina operations and all are subsidiaries of multinational aluminum producers in the United States and Canada. Government of Jamaica policies toward the bauxite and alumina industry until 1974 were largely passive, collecting prescribed royalties and other taxes from the industry. In 1974, however, the Government launched an ambitious plan to increase its share of the industry's profits and to extend its control of bauxite and alumina operations. The first part of the plan was the unilateral imposition of a bauxite levy. The second part included buying majority interests in some of the aluminum companies' mining assets in Jamaica.

It was after 1974, that the decline in Jamaica's share in the world bauxite production became particularly evident, dropping from about 19 percent in 1974 to about 13 percent in 1976. Jamaica's share in alumina refining declined from about 9 percent to 6 percent over the same time period. In addition to the imposed levy, which affected the country's cost competitiveness, this decline in Jamaica's share was partly due to strikes, labor disputes, and an explosion in Alcoa's alumina unit in 1976.

The production of bauxite increased somewhat in 1977 and 1978. In 1978, the bauxite/alumina industry generated 72 percent of Jamaica's merchandise exports, and provided about 23 percent of central government revenues. In an attempt to increase production and enhance the competitiveness of its bauxite, the Government reduced the levy slightly and introduced a reduction of the levy rate on expanded production. Production has increased somewhat, however, if the levy reduction does not result in an immediate increase in volume--large enough to offset the reduction in the rate--the Jamaican foreign exchange position will deteriorate further.

It should be noted that although bauxite is the country's largest industry, it is not labor intensive. The entire industry provides employment for only about 7,000 people (1 percent of the employed labor force). Thus, it does not assist greatly in solving unemployment problems. However, because average wages for bauxite industry employees are significantly higher than those in other industries, compensation of employees accounts for 4 percent of the entire economy.



## Agriculture

The overall record for agriculture has been mixed in recent years, but could be characterized as disappointing compared to both Jamaica's agricultural potential and expectations.

Sugar and banana exports, the two most important export crops, have declined substantially over the last 10 years. According to AID, sugar production declined as a result of sugar smut disease and severe drought which began in 1975 and continued until 1977. Other problems in sugar production included strikes and rising labor costs while prices plummeted in 1976. Banana production was adversely affected by (1) droughts in 1975 and 1976, (2) the shortage of labor in this relatively low-wage industry, (3) poor transportation facilities and handling, and (4) the problem of theft. Both sugar and banana production have also suffered from poor management.

Other smaller export crops, such as coffee and citrus, have declined as well over the past decade. However, the 1979 coffee crop may be the best in many years and Jamaica's famous Blue Mountain coffee commands high prices in world markets.

According to the State Department, the reasons behind the decline in agricultural exports overall are extensive but include: the June 1979 floods; a shift of production into products for domestic consumption; the breakup of large estates into inefficient small holdings and cooperative farms; a variety of crop diseases, involving sugar, coffee, and coconut production; and a shortage of imported agricultural inputs such as fertilizers, created by the scarcity of hard currency.

Good agricultural performance is essential to Jamaica's economic well-being not only as an important source of employment, but as an important foreign-exchange earner and as a supplier of local food to substitute for imported foods.

## Tourism

The positive trend of Jamaica's tourist industry began to reverse in 1975 when Jamaica and other Caribbean resorts began to feel the effects of the recession in North America. Tourist arrivals declined from 395,809 in 1975 to 264,921 in 1977. Bad publicity and rising crime also had a negative impact on tourism in Jamaica. Because of the decline in tourism, the Government was forced into managing some hotels, which were abandoned by private concerns.

In 1978, the trend reversed again as the number of visitors increased sharply to an estimated 382,000. During the 1978-79 winter season, earnings increased strongly, and many hotels reported full occupancies. The following summer season was not up to expectations, yet appeared to be up from previous years. Tourism continues to improve as the number of tourists, particularly Europeans, increases. However, the average amount of money spent per person has decreased due to an increase in packaged tours.

#### FURTHER STRAINS ON THE ECONOMY

The country has been affected by high inflation, shortages, unemployment, crime, strikes, and migration. These problems have helped intensify the economic crisis and strain the political atmosphere.

Inflation has been a significant problem in recent years. During 1977, the Jamaica Consumer Price Index increased by 14 percent and continued to rise in 1978. Between December 1978 and December 1979, the Index increased by 49 percent. Major causes of the inflation included (1) the substantial devaluations that were undertaken in 1978 to bring the Jamaican price level in line with that of its major trading partners and (2) the 48-percent increase in the money supply that took place largely as a result of bank credit to the public sector to finance the budget deficit.

Poverty in Jamaica is widespread with the largest concentration of the poorest located in the Kingston Metropolitan area. Of the 2.1 million people on the island, roughly one third live in Kingston and of these, fifty percent are unemployed with the center of the city having rates of from 60 to 80 percent. In 1978 approximately 70 percent of urban households had incomes below the poverty line of \$2,011 per annum. In addition, at least 50 percent of rural households fall below the minimum income level. According to AID, the number of poor people is increasing and their living conditions are worsening every day.

Crime has seriously affected the Jamaican economy. It has frightened tourists, raised business costs, hastened the emigration of skilled people, and inhibited foreign specialists from accepting assignments in Jamaica. Although Jamaica's crime rate is lower than that of many major U.S. cities and crime is largely concentrated in the capital city of Kingston, two factors have increased its economic and psychological impact: the dramatic increase of crime in the early and mid-1970s and the relatively high percentage of middle-class victims.

Labor problems have mounted as inflation and devaluation have eroded the wages and living standards of the workers. Strikes in such key areas as electricity, railroad, and the port have hampered production in a number of other areas.

Shortages have occurred because Jamaica has not been able to continually import necessary supplies of food, raw materials, and equipment due to the lack of foreign exchange. Severe shortages have been experienced in recent months. Some supermarket shelves are nearly empty of certain staples, such as milk and bread, not to mention nonessentials. The operation of some businesses and routine living conditions have been hampered due to depleted supplies.

Migration between 1960 and 1970 reached a net annual outward movement of 28,000. This migration was viewed as having a positive effect on the island's development because those migrating consisted mostly of people at the lower end of the educational and income spectrum. In recent years, however, the composition of migrants has changed significantly, including more skilled, professional, and managerial people. Because Jamaicans are departing for the United States, Canada, and Britain, medical services have been curtailed, legal and educational professions have been depleted, mid-level managers, administrators and skilled tradesmen are difficult to find.

While the Government of Jamaica has not formally studied the migration problem, a 1978 Government Economic and Social Survey stated that, unlike past migrations, the current one has been largely inspired by internal factors rather than attractions from abroad. According to the former Jamaican Minister of Finance, virtually every development project in the country is suffering because of the migration. The opposition political party contended that the Jamaican Government has done little to prevent the outflow of trained people because they are most likely to oppose sweeping economic changes. Although the Government denies these allegations, some people view the exodus as a safety valve that has helped the country endure its recent austerity without social disruption since many Jamaican residents in the United States are sending those items in short supply (e.g., appliances, spare parts, and food) back to relatives and friends.

Specific examples of losses of human resources are quite vivid: a West German assistance program that sent 130 young Jamaicans to Germany a few years ago for training in auto mechanics has only 14 still in Jamaica; a U.N. representative stated that under a U.N.-sponsored animal program, 13 of 23 veterinarians trained have left the island for the United

Kingdom, Canada, and the United States while an additional 8 of the 23, were trying to leave. Further, in 1974, there were about 140 architects in Jamaica and now reportedly less than 25 remain.

#### NEED FOR DONOR COORDINATION

Jamaica's external assistance has increased in recent years, reflecting the world's concern for the country's economic difficulties. (See appendix I.) Despite the extensive assistance from a multiple of donors, coordination remains limited.

According to Jamaican and AID officials, the multiplicity of donors has increased the need for coordination among donors, especially since many donors have similar mandates and are providing similar assistance. An office in the Jamaican Ministry of Finance is supposed to coordinate donor assistance but does not yet appear to be especially active. We were told that, in some instances, the different Government ministries have difficulty coordinating their developmental project activities. The various ministries also compete with each other for development and technical assistance, which results in a large number of relatively small projects. This further strains Jamaica's limited management resources.

The Caribbean Group for Cooperation in Economic Development, a group comprised of major multilateral and bilateral donor organizations, has tried to promote coordination by bringing donors together and by attempting to promote activities in areas that are not now sufficiently covered.

#### U.S. POLICIES AFFECTING JAMAICA

Even though the U.S. Government has been very supportive of Jamaica in providing AID assistance in recent years, several U.S. policies have been identified as adversely affecting Jamaica. For example, the Export-Import Bank and a related organization, the Foreign Credit Insurance Association, have limited their Jamaican coverage to those entities that are either foreign-exchange earners, foreign-exchange savers or that have long-term relationships with the Association. This has made it more difficult for a U.S. supplier to sell to a Jamaican buyer, which is significant because Jamaican manufacturers prefer U.S. and Canadian suppliers due to their proximity. This action was taken because of the loss of confidence that the Government of Jamaica could generate sufficient foreign exchange to pay the suppliers.

The Overseas Private Investment Corporation is seeking to limit its exposure in Jamaica because of the large amounts of coverage the bauxite companies currently have insured. An official in the Overseas Private Investment Corporation also stated that before March 1980, the Corporation restricted the insurance on the investments of the top 1,000 companies because the Jamaican per capita GNP earnings exceeded the criteria cut off. However, Jamaica's declining GNP has made these companies eligible to be insured. The Corporation is concerned about its high-risk exposure in Jamaica and is likely to limit coverage to small- and medium-sized activities.

#### ASSESSMENT OF PRIVATE- AND PUBLIC-SECTOR RELATIONSHIPS

Comments from Jamaican Government officials and American and Jamaican businessmen show a definite gap in the relationship between the private sector and the current administration in Jamaica. The deterioration of the economy is viewed by the private sector as largely the result of Government mismanagement. Government officials believe the private sector has failed to reinvest capital, thereby intensifying the existing economic crisis.

Jamaican businesses, especially those dependent on raw material imports, have been severely affected by the current economic crisis and by the lack of foreign exchange. One American businessman stated he will cease operations unless the country receives foreign exchange to pay for imports. Another manufacturing official whose company's imports are basically intra-company transfers and therefore not directly affected by the shortages of foreign currency, commented that the lack of foreign exchange has made it difficult for their local suppliers to obtain the imports needed to operate.

According to a member of the private sector, the public utility operations are so unreliable that his company has had to install expensive backup systems to assure continuous operation. Businessmen also believe that the Jamaican labor unions have failed to demonstrate a sense of responsibility. The unions' quickness to strike, combined with the unreliable public utilities, add to the operating costs and reduce Jamaican competitiveness.

Company officials we interviewed did not predict any large additional investment in the near future in part because of adverse market conditions. But one official said he was awaiting the 1980 national election results before making any additional investments. He also said the Jamaican business

community generally lacks confidence in the current Government and is therefore not likely to make any large investments.

Other comments by business officials were (1) they were not concerned that their companies would be nationalized by the present administration, and (2) while migration of employees did exist, the extent and the effect on operations did not appear to be significant.

According to a high official in the Jamaican government, the private sector has come to mean a small group of people who belong to the Chamber of Commerce, the Manufacturers' Association, and the Private Sector Organization of Jamaica. He said the companies associated with these people, often failed to reinvest their capital, often are monopolistic and are at odds with the present government. This official said the Jamaican government wants to work more with the small businessmen and farmers, to help this group move up a few technical levels. Big business in Jamaica is viewed as not being cooperative and in some instances deliberately trying to run their business down.

#### GOVERNMENT OF JAMAICA ACTIONS TO REVERSE ECONOMIC DECLINE

The Government of Jamaica has been making concerted efforts to alleviate the country's severe economic problems. In July 1977, the Government adopted a comprehensive program which became the basis for agreement with IMF on a 2-year standby arrangement. In October 1977, Jamaica drew the first tranche under this arrangement; however, it failed to meet its commitment to limit domestic credit expansion and the arrangement was terminated.

The Government and the IMF negotiated a 3-year Extended Fund Facility arrangement in May 1978 which permitted a longer period for economic adjustment. The agreement provided balance-of-payment support of approximately \$80 million per year for 3 years. As a condition of the agreement, Jamaica adopted an economic policy designed to put the economy on a growth path and reduce the balance-of-payment deficit. The policy's features included targets on net foreign reserves, ceilings on assets of the Bank of Jamaica and on net bank credit to the public sector, elimination of arrears and external payments, establishment of a new exchange rate and mini devaluations, and a strong income policy. The balance-of-payment support was increased to \$170 million

per year for the second 2 years beginning in June 1979, when a new program was elaborated, the cornerstone of which was a "social contract" between the Government, unions and business.

In December 1979, Jamaica failed to meet several conditions it had agreed to with the IMF and was not eligible to draw further funds until another agreement could be reached. Anticipating the failure, negotiations began in September 1979 for a new program that would stimulate economic growth and attack the public sector budget to strengthen the balance of payments. By January 1980 the growth objective was abandoned as escalation of political factors alienated the private sector. Negotiations then focused on reducing the 1980/81 recurrent budget deficit by J \$150 million. (See appendix II for exchange rates.) The Government concluded that it was not possible or advisable through cuts, new taxes or by whatever means to reduce the deficit by more than J \$100 million. They believed that an additional J \$50 million cut in spending would be disastrous because it would put 10,000 to 11,000 Jamaicans out of work and would force Jamaica to dismantle programs in health, welfare, and literacy. Because an agreement was not reached, Government officials stated they would apply for a waiver through the International Monetary Fund Executive Board. As of June 1, 1980, Jamaica had not officially requested a waiver and had broken off negotiations with the IMF for new credits. This leaves the country with little financing to cover some \$150 million in foreign debts coming due this year.

Meanwhile, Jamaica is searching elsewhere for funds. It received a loan from Libya for \$50 million, but a U.S. embassy official commented that Jamaica has such a large debt servicing requirement that it was doubtful that more than \$30 million of these funds could be used for balance-of-payment relief. The feeling is that the International Monetary Fund offers the only available alternative to Jamaica.

The inability of the present administration to pull the Jamaican economy out of its rapid decline has prompted the Prime Minister to announce plans to call for a general election in late 1980 in an effort to avoid possible mass demonstrations and violence. The Jamaican population is polarized with many doubting that fair elections can be held in spite of the current voting reforms.

## CONCLUSION

Jamaica's balance-of-payment position has suffered as a result of the rise in oil prices, the decline in tourism, a high level of consumption, an undiversified export economy, and a capital outflow partly due to Government of Jamaica policies. The Government of Jamaica was unsuccessful in reducing its budget to promote economic stabilization and recovery. Compounding matters, sufficient alternative funding sources have not been identified, leaving Jamaica's economic survival very uncertain.

The current state of affairs in Jamaica is significant because it adversely affects Jamaica's absorptive capacity for external assistance, and its ability to maintain the institutions, services, and systems provided through assistance programs. Increased emphasis on investment, production and trade appears essential to generate the revenues needed to perpetuate the gains from basic human needs assistance.



### CHAPTER 3

#### AID STRESSES ECONOMIC RECOVERY

##### • AND LONG-TERM DEVELOPMENT

AID assistance to Jamaica has increased sharply in recent years in response to Jamaica's economic crisis. Overall, AID's projects are making progress with realistic hopes of meeting their objectives. Problems do exist, but for the most part, they are manageable. However, should Jamaica's economy deteriorate further, it can not help but affect the success of the AID program, especially since Jamaica's absorptive capacity will be even further strained.

AID funding and strategy for Jamaica has seen great changes since 1977, reflecting U.S. concern for Jamaica's economic and political well-being. Before 1977 AID programs in agriculture, rural development and nutrition; education and human resources; health and population; and balance-of-payment support; provided minimal economic support to an emerging nation. Since 1977 these programs have tried to help Jamaica overcome its short-term economic problems, and are now aimed at long-term economic development.

#### AID FUNDING DEMONSTRATES DEGREE OF PROBLEM

Most AID assistance to Jamaica is handled through the bilateral mission in Kingston. It is the bilateral program that is primarily charged with assisting Jamaica. The regional program which is administered through the Regional Development Office/Caribbean (RDO/C) in Barbados, also effects Jamaica, mostly through AID contributions to the CDF. Finally, some AID projects in Jamaica are funded and administered directly by AID/Washington, though such projects are minor.

#### Bilateral program

U.S. Government concern for Jamaica was vividly demonstrated in 1977, when AID increased bilateral economic assistance to Jamaica from about \$4 million a year to almost \$30 million. Before 1977, loans were typically made for infrastructure improvements and grants made for family planning and food assistance. Total economic assistance for the 25 years prior to 1977 was \$114 million.

Because of the serious economic problems besetting Jamaica, AID designed a bilateral assistance package for fiscal years 1977 and 1978 totaling over \$65 million. The package emphasized foreign exchange and balance-of-payment

assistance and included some projects promoting long-term development. Table 1 shows gross obligations for fiscal years 1977 and 1978.

Table 1

AID Economic Assistance to Jamaica  
Fiscal Years 1977 and 1978

<u>Funding category</u>	<u>FY 1977</u> (in thousands of dollars)	<u>FY 1978</u>
Population and Health	490	617
Agriculture, Rural Development, and Nutrition	1,044	13,178
Education and Human Resources	360	2,410
Special Development Activities	139	130
Project Development and Support	<u>199</u>	<u>798</u>
Total Project Assistance	<u>2,232</u>	<u>17,133</u>
Housing Investment Guaranties	15,000	0
Commodity Import Program	0	9,500
P.L. 480 (Titles I and II)	<u>12,004</u>	<u>10,507</u>
Total Economic Assistance	<u>29,236</u>	<u>37,140</u>

AID project assistance, according to the latest strategy statement, is expected to average about \$14 million a year between 1979 and 1984, with a low of \$5,869,000 (actual) in fiscal year 1979 and a high of \$21,500,000 (proposed) in fiscal year 1983. Project assistance should level off in fiscal years 1985-86 to about \$10 million a year. A \$15-million Housing Investment Guaranty (HIG) is expected to be authorized in fiscal year 1981 and another \$25 million in fiscal year 1984. The funding strategy has been to provide large balance-of-payment and fiscal relief during the Jamaica/IMF program. If successful, less assistance will be needed.

This large level of AID funding may be affecting Jamaica's absorptive capacity. Project expenditures are lagging behind net obligations for the AID bilateral program. Grant expenditures for fiscal years 1977 through 1979 totaled \$3,722,000--slightly more than half the total net obligations of \$7,287,000 for that period. Loan expenditures for this period totaled \$6,219,000--slightly more than one third

the total net obligations of \$17,720,000 for the same period. It is to be expected that expenditures would lag behind obligations to some extent, especially for multiyear loans obligated in the first year. For some projects in Jamaica, however, the gap between obligations and expenditures is large. For example, a \$13-million loan was obligated in fiscal year 1978 for the 5-year integrated rural development project. Because of delays in beginning implementation, expenditures for the first 2 project years totaled only \$1,427,000, compared to planned expenditures during that time of \$6,652,000. (See appendix III for status of AID projects as of March 1980.)

The differences between expenditures and obligations are generally attributable to project delays described later in this chapter. We believe, though, that these differences may indicate that the capacity of the Government of Jamaica to implement these projects may be nearing its limits.

#### Regional program

Jamaica also receives economic assistance from AID's regional program. RDO/C in Barbados funds projects throughout the Caribbean region. RDO/C funding averaged about \$25 million a year for fiscal years 1978 and 1979 and affects Jamaica primarily through AID's contribution to the CDF. (See chapter 4.) Jamaica received \$11.1 million from AID through the CDF in 1978 and \$10 million in 1980. Because RDO/C devotes most of its funds to those Caribbean countries without bilateral AID programs, AID's other regional programs, with some exceptions, have little impact on Jamaica.

#### Centrally funded program

Jamaica also receives some assistance from AID's centrally funded activities, which AID/Washington administers. The purpose of the activities is to (1) promote economic development in more than one region of the world, (2) provide support to U.S. private and voluntary development organizations, (3) supply technical expertise to developing nations, and (4) support new approaches to development problems.

Jamaica receives less than \$1 million a year from the centrally funded program. Expenditures for population/family planning projects amount to about \$400,000 a year. All other sectors receive a total of approximately \$500,000 a year.

## AID STRATEGY FOR JAMAICA

AID's bilateral strategy is aimed at helping Jamaica recover from its economic ills through development and higher productivity. AID's regional strategy, though more general, supports this goal.

### AID bilateral strategy

AID's decision in 1977 to expand its program reflected concern for a troubled country with whom the United States has strong geographical and cultural ties. AID objectives were to help Jamaica recover from its economic crisis by correcting structural weaknesses and to help eliminate the principal constraints to sustained, equity-based development and growth.

Despite these efforts, Jamaica's economy has continued to decline. AID believes that foreign donor resources alone cannot halt the economic decline and in its fiscal year 1982 Country Development Strategy Statement for Jamaica, proposes more modest objectives. These objectives include helping to reduce the rate of population increase and, therefore, the growth of unemployment; helping to increase small farm production and improve the rural quality of life; encouraging the increased use of alternative energy sources; helping to preserve, in the face of declining Government revenues, health and educational facilities to the poor; and encouraging the efforts of voluntary agencies and small business, to help meet the problems of the unemployed.

AID's strategy to meet these objectives will emphasize Jamaica's long range development rather than its current economic difficulties, although balance-of-payment assistance will continue through such programs as P.L. 480, HIG and CDF. Assistance will be concentrated on the productive rather than social sectors. The program for fiscal years 1982-86 will include projects in agriculture, energy, urban employment, personnel and management training, and family planning. AID realizes that its efforts could be undermined by current conditions in Jamaica, but believes that assistance is justified because of Jamaica's extensive needs, its democratic traditions, and its significant role in regional and world affairs.

### AID Caribbean regional strategy

AID's Caribbean regional strategy is to (1) improve cooperation among the English-speaking Caribbean countries and coordination between all Caribbean countries by strengthening regional development institutions and common technical

and commercial services and by encouraging the formulation of complementary regional and national policies, (2) strengthen the capability of these countries to provide for the basic human needs of their citizens through increased agricultural productivity and through stimulation of productive employment, and (3) stimulate equitable economic recovery and growth through the CDF.

AID's regional strategy is intended to affect principally the small eastern Caribbean nations. Jamaica has a bilateral program and does not always belong (though it often does) to the regional organizations that implement AID's regional projects. Like Jamaica, the eastern Caribbean nations face severe economic problems.

#### Comparison of AID strategy to Jamaica strategy

AID's strategy appears to be in line with Jamaica's 5-year Development Plan (1978-82). The plan calls for reducing dependence on imports and foreign investment; generating employment for the poor in the production of basic goods and services; providing for more efficient and productive use of Government resources; and providing for more careful development, conservation, and use of basic human and natural resources. Structural change and development will be emphasized in the areas of agriculture, minerals, and exports. AID's strategy of helping to increase production and employment, especially in agriculture, supports Jamaica's plans for reducing its balance-of-payment deficit, lowering its unemployment rate, and developing its human and natural resources. Several AID projects have provisions aimed at improving Government operations.

#### AGRICULTURE, RURAL DEVELOPMENT, AND NUTRITION

AID's assistance for agriculture, rural development, and nutrition programs account for the majority of the Jamaican bilateral funding. Most funding is for agriculture and rural development projects. There is only one small nutrition project. AID's regional agriculture, rural development, and nutrition program has contributed significantly to Jamaica, primarily through the CDF.

#### Agriculture and rural development

Jamaica's agriculture could play an important role in helping the country recover from its economic crisis, but, much needs to be done to increase agricultural productivity. Approximately 60 percent of the Jamaican population lives on farms. About 30 percent of the labor force are employed

in agriculture jobs but they produce less than 10 percent of the GNP. Constraints on the agriculture sector include inadequate management capability within the Ministry of Agriculture, which affects agricultural policy, budgeting and project implementation; poor land use caused by erosion and use of marginal hillside land; inefficient distribution due to a lack of grading standards and a marketing system; and limited agricultural research, extension and educational capacity.

### Government agriculture strategy

The Government of Jamaica recognizes the significance of agriculture as the basis of rural and community development, improved food and nutrition, production of raw materials for industrial transformation, generation of job opportunities, and saving or earning of foreign exchange. Therefore, the 5-year plan outlines agriculture goals to: make the rural environment more attractive to reduce migration of people to the urban areas; maximize the production of food and agricultural raw materials; reduce reliance on imports; ensure that all agricultural land is retained for agriculture; improve rural amenities and increase rural incomes and employment opportunities.

The Government hopes to accomplish its goals through programs aimed at increasing food production through increased acreage and higher productivity per acre, rehabilitating and expanding the traditional agricultural export industry and improving irrigation and drainage. Cooperative farming will be expanded and cooperation with external donors will continue.

### AID agriculture strategy

AID largely supports Jamaica's agriculture goals and strategy. AID's bilateral strategy emphasizes increased production for farms ranging in size from 1 to 10 acres. This target group was selected because such farms are small enough to require external assistance to adopt new innovations, the group accounts for 62 percent of all farmers (in 1968) yet controls only 25 percent of all the land farmed, and it produces most of the domestic food crops and over 25 percent of agricultural exports. AID hopes that by the mid-1980s, it will have helped the Government: (1) analyze and respond to changing problems of small farmers, (2) ensure that productivity gains are maintained, and (3) develop technological innovations and policies in response to evolving conditions in rural areas.

### Program progresses despite economic conditions

AID's bilateral agriculture and rural development program has four active projects designed to meet its objectives: inland fisheries development, integrated rural development, fish production, and agriculture planning. Each of the projects attempts to improve productivity in rural areas.

The inland fisheries and fish production projects are intended to convert nonproductive areas, such as farm ponds, into fish-producing areas, which will improve rural nutrition, increase farm income and employment and ease Jamaica's balance-of-payment deficit. Both projects also are aimed at improving the Jamaican Ministry of Agriculture's management and services. The major component of the integrated rural development project is the construction of hillside terraces for farmers who formerly farmed on steep inclines. Terraced farming, combined with technical assistance, allows farmers to obtain increased production. Terraced farming also controls soil erosion and increases the water supply. Productivity is also increased through the agriculture planning project which will help the Ministry of Agriculture better analyze and respond to the needs of small farmers. A proposed agriculture marketing project is designed to improve Jamaica's inefficient food-marketing system.

These projects have experienced delays due to problems, including one or more of the following: poor planning, difficulties in commodity procurement, and inadequate host-government project management. For example, the project paper for the integrated rural development project greatly underestimated the cost of technical assistance and overestimated the number of possible participants. In addition, because of internal management conflicts within the Ministry and because of problems in preparing a skills inventory of Ministry personnel, the Ministry of Agriculture was 4 months late meeting the conditions precedent for the agriculture planning project.

Difficulties encountered in the procurement of commodities have hampered the fish production, inland fisheries, and integrated rural development projects. The inland fisheries project was delayed for 5 months because of slow vehicle delivery, and the integrated rural development project was delayed for over a year because, among other reasons, obtaining project vehicles was difficult.

Inflation has driven up costs of the integrated rural development project and rising gasoline prices have affected the inland fisheries project. Both projects have been hindered because of difficulties in obtaining spare parts, tools,

and other supplies. The integrated rural development project has further suffered because roads in the project area are not always maintained.

Shortages and retention of competent personnel has also been a problem. The original project manager for the integrated rural development project also worked with the Ministry of Agriculture. The project suffered because he was unable to perform both assignments satisfactorily. The agriculture planning project has experienced a similar problem. As a further example, one person, who was being trained in the United States for a high-level position in the inland fisheries project, failed to return upon completion of his training.

Overall, despite the economic and general problems discussed above, the projects appear to be making progress. Although it took over a year to get the integrated rural development project started, the project appears to be moving well now. As of April 1980, 58 percent of the eligible farmers had submitted farm plans to project officials, 25 percent of the bench terraces were finished, and all five of the demonstration farms were operating. The inland fisheries project is behind its original schedule, but is expected to finish in June 1980 and its successor, the fish production project, is now getting underway. Conditions precedent for the agriculture planning project, were met in April 1980.

AID officials are generally confident that these projects will be successful. Both farmers and the Government receive concrete benefits from the projects; therefore, Jamaica's commitment to agricultural development and to the continuation of these projects appears strong. We are concerned, however, given the large number of external assistance projects in Jamaica, the short supply of skilled Jamaican managers and the Government's budgetary constraints, as to whether Jamaica can continue to absorb all external assistance (a concern that is shared by a high-level Government official) and whether Jamaica can eventually expand these projects to all parts of the country.

### Nutrition

In 1978, nutrition was a high-priority project of the Jamaican Ministry of Health. The results of a 1978 national nutrition survey indicated that 14.3 percent of Jamaican children were malnourished; two rural areas showed malnourishment percentages of 53 and 47. Most cases were mildly malnourished, but more severe malnourishment was shown to exist.



### AID strategy

The AID bilateral nutrition strategy is to provide limited support to the Ministry of Health in three areas: surveillance of the nutritional status of young children; nutrition education through health facilities and mass media; and supplementary feeding programs. AID's efforts, through its health and population program, to improve the operations of the Ministry of Health will also benefit the nutrition program.

### AID project delayed by Jamaican budgetary constraints

AID has provided the Catholic Relief Service, in collaboration with the Ministry of Health, a grant for a 3-year rural community nutrition and income improvement demonstration project. The project began in April 1977 and involves the use of Jamaican Youth Corps workers and community health aids, to instruct a target population of 2,500 families in home gardening, livestock rearing and nutrition education. Project objectives are to demonstrate how the Youth Corps workers can become effective agricultural extension workers in vegetable gardening and small livestock production; to establish at least 560 kitchen gardens and 80 livestock centers; and to establish a link between the health aides and the Youth Corps workers in communities and have them serve as team members in providing nutrition education.

The project has encountered several problems. Budgetary problems within the Ministry of Health have resulted in (1) scales and equipment not being provided to community health workers to monitor children's weights; (2) insufficient travel funds which restricted the participation of nutrition assistants for the latter part of 1978 and 1979; (3) inadequate supervision over community health workers, which reduced their productivity; and short supplies of iron tablets for pregnant women. Budgetary restraints in another ministry resulted in Jamaican Youth Corps workers only being available for 1 year instead of the planned 2 years. Other delays resulted because of difficulties in obtaining livestock, the high mortality rate of rabbits and goats; the inadequacy of data needed to identify the target groups; and the initial reluctance of the rural community to participate in the project. The project has been extended for 12 months because of these delays and is likely to receive an additional 4-month extension.

The project has been successful in getting 255 gardens active by February 1979, encouraging the growth of vegetables, and establishing 44 husbandry projects. AID is spending no additional funds.

With the country's current economic conditions and the problems in the Government budget, it is not likely that the demonstration project will be expanded once AID funding is complete, unless another external donor covers the cost. There is also an indication that current economics may not make the husbandry portion of the project profitable for participants and may discourage future participation.

#### AID's regional program has substantial impact on Jamaica

Only two agriculture, rural development, and nutrition projects financed by AID's RDO/C have an impact on Jamaica. AID has contributed \$11.8 million in funds to these Jamaican projects through the CDF. (See ch. 4.) AID also plans to eventually contribute \$1.4 million to the Caribbean regional nutrition project, to increase the capabilities of the people in English-speaking Caribbean countries to formulate, implement, and evaluate national and regional food and nutrition policies and programs. Although the project has experienced problems, it has not been affected by Jamaica's economic condition.

#### EDUCATION AND HUMAN RESOURCES

AID's bilateral education and human resources program in Jamaica consists of one large education project and four small human resources projects. AID's regional education and human resources program affects Jamaica only slightly.

##### Education

According to AID officials, Jamaica's educational system is deteriorating. With a declining real budget for education, cuts are being made not only in teachers and other personnel but in supplies, maintenance, and operational expenses. This strain on the system has been exacerbated by political pressures to increase the number of entrants in the secondary schools. In addition, there are, among other things, several institutional weaknesses in the Ministry of Education, including (1) loose coordination between the Ministry planning unit and the Ministry of Finance, (2) lack of coordination between administrative and management units, and (3) lack of information systems.

##### Government/AID strategy

Jamaica has been placing, and will continue to place, emphasis on expanding primary education, agricultural education, and teacher training. AID's current strategy is to focus upon this target area through its rural education

sector program and to focus future assistance in agricultural education. Studies are underway to determine specific needs, and AID expects assistance to agricultural education to form part of future agriculture sector lending.

#### AID's rural education sector project

The purpose of the rural education sector project is to provide non-capital and capital resources to permit Jamaica's Ministry of Education to carry out an integrated educational program for rural areas. The program is designed to upgrade formal and non-formal education appropriate to rural living and employment. The project has five major components: (1) continuing education, (2) primary education, (3) secondary education, (4) teacher education, and (5) management, planning, research and development, and information systems.

Although most of the planned activities are underway, the implementation of the project is almost 2 years behind schedule. Some of the current problems and reasons for prior delays include:

- Lack of adequate personnel to implement the project (i.e., no full-time project manager for a time; several changes in coordination for various project components; delays in participant training in the United States).
- Poor implementation techniques both on the part of the Government and AID (untimely orders for equipment and supplies, and delays in approving documentation for the participant training in the United States).
- Lack of some essential equipment (the agricultural secondary schools have not received the tractors and other farm vehicles needed for agricultural training programs and for crop harvesting).
- Failure to understand the complexity of the project and failure to meet AID requirements. (Some AID staff believe that the project should have been five separate projects).

Some problems appear to be related to Jamaica's tenuous economic and political situation. For example, the lack of adequate personnel to implement the project could be caused by the outflight of educated, professional and other middle management personnel. While this is prevalent in the majority of Latin American and Caribbean countries, the loss of skilled personnel seems to be abnormally high in Jamaica. As a result,

AID will probably send fewer Jamaican trainees to the United States and instead bring more technical experts to Jamaica to do training, so that the loss will be reduced. In addition, the lack of essential equipment and difficulties in acquiring some food and supplies for the agricultural secondary schools, could be linked to Jamaica's lack of foreign exchange.

On the positive side, one rural secondary agricultural school has been operating for more than 7 months and is operating at near capacity, and another school will be open soon. Equipment and supplies should arrive in time for the opening. In addition, curriculums for primary and agricultural schools have been developed, and community groups are planning programs for education components. To meet implementation objectives, a request to extend the project for 1 year until 1981 is underway. According to AID officials, Jamaica is committed to the project. AID officials currently feel that the Government will be capable of maintaining the project after AID assistance is terminated.

#### Human resources

Due to high unemployment, there is a need for linking together, more effectively, Jamaican workers with potential employers. Thus, training programs should be developed to meet the most urgent shortages. However, there are numerous deficiencies in data collection, analysis and planning, training and placement; as well as in identifying manpower resources. There is also a need for training to upgrade the skills of middle-level management.

#### Jamaica/AID strategy

The goal in Jamaica's 5-year plan is to reduce unemployment to 15 percent. AID is financing a project directed at the gathering, evaluation, distribution, and feedback of basic employment data. Specific personnel needs will be identified. It is also providing projects which focus upon vocational training. Future AID assistance would also assist the Government in developing training programs to meet manpower needs.

#### AID program

The purpose of AID's manpower planning, training and employment project is to improve Jamaica's manpower development and utilization system such that it will be responsive to labor market needs and to planning goals of the Government.

The objective is to upgrade and coordinate Government personnel activities and ultimately to increase the employment and productivity of the Jamaican labor force. The purpose of the national planning project is to strengthen Jamaica's planning capability to increase the flow of international financing for such projects.

AID is also assisting Jamaica with two operational program grants. The first, Vocational Skills Training, is to extend the vocational training programs of Operation Friendship--a voluntary program of development in health, education and social services. The second grant, Social Development Services Delivery Systems, is financing activities of the Council of Voluntary Social Services. Grant activities focus on social development services of voluntary organizations in Jamaica and on the priority problems of unemployment, children/youth and rural outreach. It will create the capability within the Council and its member agencies to jointly plan, fund, implement, and evaluate the progress of activities, resulting in more efficient use of existing resources.

Each grant project with the exception of the manpower project, has experienced delays ranging from 10 weeks to more than a year. Reasons for delays include the following.

- More time was needed to adequately review construction plans (10 to 12 weeks--vocational training project).
- Implementation plans were not being well established (1 year--social development project).
- A permanent project planning body was not established (national planning project).

It appears that the current economic situation has not significantly affected these grant projects. The projects are generally well underway. Future government budget cuts and a worsening economic situation, however, could have a negative effect on the placement of individuals trained under the various projects.

#### AID's regional program has small impact on Jamaica

Four education and human resources projects financed by the RDO/C impact on Jamaica. AID has contributed \$1.3 million in funds to Jamaica through CDF. (See ch. 4.) Other regional projects in which Jamaicans can participate include a regional development training project--aimed at improving

the management of public and private organizations--and an institutional development project--to train individuals in designing development projects. Jamaica is also eligible to participate in one segment of an educational development grant, which will develop new syllabi for secondary schools. Jamaican involvement in these projects is not clear.

#### HEALTH AND POPULATION

Jamaica's economic difficulties have adversely affected the performance of the health and population sector. Losses of critically skilled health personnel and budgetary problems in the Ministry of Health, combined with an insufficient management expertise have contributed to an overall decline of health care in recent years. Although Government officials have not articulated a population policy, the Government has maintained financial support for population programs. Nevertheless, birth rate goals for 1980 have not been attained.

Health care has declined because of severely limited project resources; the lower priority of the social sectors relative to the productive sectors; the declining number of skilled health professionals, especially in rural areas; and the inadequacy of medical equipment and the difficulties of obtaining spare parts. Population growth continues to be moderate (about 1.3 percent in 1978) because of emigration and reduction in the crude birth rate. Although the crude birth rate has declined 30 percent since the Government and AID initiated a joint effort in 1966, the Jamaican population is still growing very young and the birth rate among teenage women is increasing. Migration does not solve the problem because the disproportionate loss of skilled people further reduces the country's ability to absorb a younger population.

#### Government of Jamaica strategy

The main objective for health delivery as stated in the Government 5-year plan is to provide primary health care for all, through the development of an integrated and comprehensive national health system. Priorities include the development of a more dynamic and efficient management structure; improvement of the health information system; expansion of maternal and child health care facilities and services; the reduction, by at least 50 percent, of malnutrition among young children and of anemia in pregnant and nursing mothers. Special attention is proposed in the plan for primary health care programs relating to communicable diseases, environmental control, mental health, dental health, as well as for secondary and tertiary health care programs for which specialists in the main medical fields will be made easily accessible to the population.

Family planning, one of the highest priorities in the plan ended in 1968, has not been clearly stated as a Ministry of Health objective in recent years. However, the Government has consistently maintained financial support and budgets have increased every year up to 1977; since 1977, a J \$2 million annual program has been maintained.

#### AID strategy

AID will continue to emphasize assistance efforts aimed at reducing fertility rates to levels compatible with sustained social and economic development. The goal of obtaining a crude birth rate of 25 per 1000 by 1980 has not been met. The current goal is to help Jamaica achieve a crude birth rate of 25 per 1000 by 1981, and 20 or less per 1000 by 1985. AID also proposes a strategy of selective intervention into the primary health care system in those areas which will help arrest deterioration of the health infrastructure. Any improvements in the health care system will directly benefit the family planning program because most family planning services are delivered through the public health care system.

We believe the AID proposed strategy is compatible with the Government of Jamaica's goals and is reasonable given the economic situation existing in Jamaica. The majority of AID assistance for health care has been directed toward family planning activities, whereas only about 2 percent of the Ministry of Health budget is allocated to family planning. Because family planning activities are being performed in health facilities by the same personnel responsible for other health programs, it is difficult to measure the extent that family planning is benefiting from the health infrastructure.

AID assistance is also valuable because of the relatively few external donors in the population area; the concentration of other donors in other health areas and the need for Jamaica to achieve population growth rates that the economy can adequately support.

#### AID health and population projects

AID currently has one family planning project and one health project being funded through its bilateral program. In addition, the centrally funded AID program has provided several grants to private organizations active in Jamaica.

According to AID officials, from 1966 to September 1979, the United States donated over \$5.7 million to family planning in Jamaica through its bilateral assistance program. AID's

current bilateral family planning grant is assisting the Government in: (1) integrating family planning services into basic health services; (2) integrating family life and sex education into the public school system; and (3) establishing a countrywide commercial contraceptive distribution system. This project also focuses on services and educational programs specifically designed to affect adolescents. AID's centrally funded projects that have affected Jamaica include programs that provide equipment and physician training needed for voluntary sterilizations; equipment and supplies for advanced training and research in population control; contraceptive supplies; and support for adolescent mothers.

The AID bilateral health grant--Health Improvement for Young Children--was originally approved in 1976, and is designed as a demonstration project for a new decentralized and improved Jamaican health delivery system. The project is intended to supplement a \$6 million World Bank loan that financed the construction of 57 health care centers and clinics. U.S. assistance is also intended to help establish a training unit in the demonstration group to assess services, provide training to personnel, and to assist in the improvement of management, information, and service statistics.

#### Project status

Bilateral health and population projects are being implemented by the Ministry of Health which has management, planning, and coordination problems. According to AID officials, Ministry project personnel are often hampered by insufficient staff and guidance. The Ministry has also been affected by inadequate training and by insufficient travel funds.

The health project was delayed for several months because of contracting problems. In the intervening time the Minister of Health decided not to wait for the results of the pilot project but to move ahead in implementing a primary health care system island-wide. Thus, while the project goals remained the same, the project focus was broadened, creating implementation problems. The U.S. consultant's role within the Ministry was not clearly defined, and the Ministry did not continue to allocate funds as planned for the pilot project. Economic problems, such as shortages of foreign exchange to purchase medical equipment and supplies and strikes by medical personnel, also hampered the primary health-care system.



Family planning has also been affected by economic problems. Ministry budget constraints have limited, by 70 percent of the 1980 target, the number of community health workers who are available to disseminate family planning information and to perform other health-related outreach activities. Furthermore, these workers have been unable to distribute contraceptives as originally planned, which has affected program coverage, especially in rural areas. AID officials believe this is due to limited training opportunities for health personnel.

Sales for the commercial distribution of contraceptives have dropped because available advertising funds have been reduced and the number of new distribution outlets is inadequate. In some instances, the Jamaicans have been unable to take advantage of existing equipment and facilities. An AID official stated that with the sterilization equipment the United States has provided to Jamaica, 10,000 to 15,000 sterilizations could potentially be done each year, but annually only about 3,000 sterilizations are being performed. The lack of doctors and their need to concentrate on more immediate medical problems were cited as primary reasons for the low usage of the equipment.

Despite difficulties, family planning has moved forward. Statistical information suggests that the target of 100,000 users should be met, if not surpassed, and over 350 clinics are performing some type of family planning services.

AID projects in health and family planning are moving forward in spite of increasing health problems. Program efforts are being carried out in such areas as training, contraceptive distribution, and health service delivery but at a much slower pace than originally perceived. We believe AID has shown an ability to be flexible in responding to necessary redirection for various undertakings which will ultimately benefit the Jamaican population.

It is likely that the social services (including health) will continue to be affected by the country's problems. The Ministry of Health budget in recent years has not kept up with inflation, and many services have been cut or have failed to materialize. Additional proposed fiscal restrictions will almost surely affect health care.

#### AID's regional program has moderate impact on Jamaica

Only two health and population projects financed by AID's RDO/C have an impact on Jamaica. AID has contributed almost

\$3 million in population funds to Jamaica through the Caribbean Development Facility. (See ch. 4.) AID also gave a \$1.1 million grant in May 1979 to the Caribbean Epidemiology Center, a subcenter of the Pan American Health Organization, to develop a system to control communicable diseases. Jamaica contributes to the Center, but its share of the project benefits is minor.

#### BALANCE-OF-PAYMENT SUPPORT

In response to Jamaica's foreign exchange and fiscal crisis, AID provided immediate assistance under three programs--a commodity import program, Food for Peace (P.L. 480), and the Housing Investment Guaranty Program (HIG). In fiscal year 1978, the commodity import program totaled \$9.5 million, the P.L. 480 program disbursed \$10 million, and a \$15 million HIG loan was available. Although all three programs were intended to be "fast disbursing" forms of assistance, only \$6 million of the \$15 million HIG loan was drawdown as of January 1980, and the commodity import loan was not rapidly put to use due to internal and external delays.

#### Commodity import program

In December 1977, AID loaned Jamaica \$9.5 million to finance imported agricultural and industrial materials to help increase or maintain production and generate or preserve employment. As of September 1979, all goods purchased under the program were delivered, and import documentation was forwarded to AID/Washington. Such assistance helped relieve Jamaica's balance-of-payment gap in 1978-79 which was important to meeting the IMF foreign exchange targets. Local currency generated under the commodity import loan was used to fund development activities as agreed between AID and the Government.

According to an AID evaluation dated August 1, 1979, generally satisfactory progress had been achieved in meeting program goals; however, several internal and external factors prevented rapid utilization of loan funds. Some reasons for the delays were:

- disbursements lagged behind actual delivery of goods due to lengthy delays in the U.S. banks' handling of documents for payment,
- the Government of Jamaica and the Bank of Jamaica were unfamiliar with AID requirements,

--Jamaica's private sector viewed program regulations as difficult which caused delays that increased cost of goods, and

--frequent strikes by Jamaican postal and dock workers slowed progress.

AID strategy for fiscal years 1981 and 1982 recommends contingency planning for another commodity import loan of \$10 million or more should economic circumstances improve. This assistance would finance imports of commodities (particularly agricultural goods); the generated local currencies would be used for production and employment programs.

#### P.L. 480 assistance

From 1950-76, P.L. 480 grant money (title II) amounted to \$31 million. In 1974, title II was transferred to a title I loan program because of Jamaica's favorable economic position in the early 1970s. Title I provides for sales of agricultural commodities and title II is a food donation program. From fiscal years 1976 to 1980, Jamaica received \$10-12 million annually in loan funds.

Title I imports permit Jamaica to stave off critical food shortages, to sustain adequate nutritional levels through the maternal child and school feeding program and to save scarce foreign exchange for other needed raw materials and for capital imports. Under title I, Jamaica will import wheat which it does not produce and corn and oil which it will not be able to produce in sufficient quantities over the next several years.

In March 1978, the Government of Jamaica and the United States signed a Memorandum of Understanding for use of local currencies generated under existing and future P.L. 480 agreements. It was agreed that local currencies would be used for agriculture, nutrition, health and population, education, and housing. Priority in assignment of local currency was given to ongoing AID projects.

In addition to title I, Jamaica received a \$700,000 title II grant for emergency food distribution in fiscal year 1979. After several years of political violence, the gangs that ruled western Kingston declared a truce and made a personal appeal to the American Ambassador for food assistance to the truce area. AID responded with a 6-month emergency program for the western Kingston community, directed at undernourished preschool children, pregnant and lactating mothers, and aged adults. About 130 churches and community

groups distributed food to over 61,000 beneficiaries. Despite some management problems and minor thefts, the program was successful in meeting program goals and in maintaining peace in the target area.

#### Alleged misuse of funds

In February 1979, the Washington Post published allegations that during 1977 two officials of Jamaica Nutritional Holdings, the Government-owned food importer, were receiving illegal commissions on grain sales to Jamaica. The Government dismissed the two officials and a series of investigations began.

The Government hired a Florida-based, financial consulting firm to review the nation's grain import business. The U.S. Department of Agriculture (Agriculture) investigated Jamaica Nutritional Holdings to determine if commissions were used to procure contracts. Both investigations noted irregularities in commercial sales, but found no violations of P.L. 480 sales involving Jamaica Nutritional Holdings within the limitations of the investigations.

As follow-up, Agriculture opened an investigation on the propriety of P.L. 480 shipments to Jamaica, and scheduled other investigations focusing on American suppliers and their contracts with Jamaica. Agriculture later joined with the U.S. Attorney's Office in examining possible civil and criminal violations involving U.S. suppliers and agents. In February 1980, the Government filed a series of civil lawsuits in a U.S. Court charging a group of Washington businessmen conspired to defraud the Jamaicans of \$3.7 million by overcharging on grain shipments. An Agriculture official said a problem in grain shipments involves possible conflict-of-interest between grain suppliers and shipping agents. This can effect both commercial and P.L. 480 sales. The culmination of Agriculture and the U.S. Attorney investigations should conclude whether P.L. 480 regulations were violated.

#### The HIG program

AID's principal instrument for helping developing nations address their shelter problems is the Housing Guaranty Program. This is a unique activity in which U.S. private investors or lenders provide long-term financing for low-income housing programs in developing countries. The United States underwrites these transactions through the provision of a full faith and credit guaranty that will compensate U.S. investors for losses. AID establishes maximum interest rates

for investors that reflect the current cost of money in the U.S. mortgage market. AID charges a fee for its guaranty to cover operating costs and to provide a reserve against claim losses. As a result, the program is virtually self-sufficient.

Housing Investment Guaranties make an important contribution to the overall development strategy in Jamaica. Because 90 percent of the cost of housing construction consists of local materials and labor, HIG can transfer substantial foreign exchange. HIG helps cut hard-core unemployment during construction by employing unskilled and semi-skilled labor. It also helps improve the health and morale of the poor by reducing urban blight and stimulating development.

In 1978, AID entered into agreements for a \$15 million HIG loan with the borrower--the Jamaica Mortgage Bank--and the implementing institutions--the Ministry of Finance, Ministry of Housing, Ministry of Local Government, and the Jamaica Cooperative Credit Union League Limited. The loan was designed to assist the Government and the Jamaica private sector with the development of the institutional, financial, and planning framework necessary to provide shelter for families with below average incomes.

The loan financed three subprograms: urban upgrading, squatter settlement improvement, and rural home improvement. In October 1978, \$5 million was advanced to the Jamaica Mortgage Bank. The second drawdown was scheduled for September 1979, and the last \$5 million drawdown was planned for September 1980.

In September 1979, an evaluation of the HIG loan showed that two of the three subprograms had made virtually no progress and the third was behind schedule. As of January 1980, only \$6 million of the \$15 million had been drawdown. All three programs were delayed.

The objective of the urban upgrading program is to improve the existing conditions of the urban community by providing home improvement loans to property owners, upgrading or installing sanitary and kitchen facilities, cleaning or repairing outdoor living space, and demolishing structurally unsound buildings. The issue of preservation and rehabilitation versus demolition and replacement surfaced as the major obstacle to program implementation. The former was AID's objective; the latter was explained by the Government to neighborhood residents. The misunderstanding was due to responsible personnel not participating in program planning

or implementers wanting to promote basic changes to the program. Once residents were exposed to plans for new housing rather than rehabilitated housing, it made the program politically difficult to implement, thus a decision was made to move the program out of Kingston to a smaller urban area.

A second obstacle to program implementation was ineffective program management. The national staff was not visiting the local units to convey policies and procedures directly, and discuss local problems. The level of staff experience and allocation of staff to the local units were not conducive to successful implementation. The program director has subsequently been replaced and it is hoped that changes will be made to expedite implementation.

The squatter program is intended to provide recognition of squatter settlements through long-term leases, prepare a balanced lot scheme for the physical arrangement of residences, and install basic utilities and services. This program was making reasonable progress until major construction equipment breakdowns caused a 2-1/2-month delay at one project site. Also, original designs were too costly, not fully sensitive to the topography, and provided an unsatisfactory lot configuration. Based on current economic conditions, a reevaluation of the cost recovery mechanisms is necessary to assure loan repayment.

The objective of the rural home improvement program is to improve shelter conditions of small, rural farmers by making home improvement financing available. Funds were to be disbursed by the Jamaica Mortgage Bank to the Jamaica Cooperative Credit Union League and in turn made available to individual credit unions for home improvement loans to members. A problem developed when the League saw as its primary purpose the promotion of new membership rather than advertising home rehabilitation loans. As an incentive to promote action and participation, AID changed the implementation approach to facilitate the disbursement of funds. The plan called for a reduction in the interest rate to the credit unions, with the difference absorbed by the Jamaica Mortgage Bank; and the simplification of the application review procedures.

An AID evaluation team recommended actions to overcome the problems and support the objectives of the HIG program. Some are already being implemented by the responsible agencies. Despite a slow start, AID believes the program has the potential to move forward and meet its targets. AID

expects to authorize additional funding under the HIG program with \$15 million planned for fiscal year 1981 or 1982, and \$25 million in fiscal year 1984, as part of a broader urban development and employment strategy.

#### SELECTED DEVELOPMENT ACTIVITIES

AID's bilateral selected development activity program has one ongoing project--Special Development Activity Fund--and one proposed project--Science and Technology-Energy. AID's regional selected development activity program has moderate impact on Jamaica.

#### Special Development Activity Fund

The Special Development Activity Fund is a mechanism whereby AID may provide limited financial resources to complete small, constructive, self-help community activities. USAID/Jamaica receives \$50,000 annually to support these projects. Funds not obligated during the current fiscal year are not available for obligation in the next year.

During fiscal year 1979, USAID/Jamaica funded 15 self-help activities and the entire \$50,000 was obligated. During fiscal year 1978, the mission obligated \$47,928 for 16 activities. All the obligations made under this authority appear to be within the intent of AID-funding criteria. According to AID program records, the funds are being utilized within a reasonable period.

The demand for these grants exceeds available resources. During the first 4 months of fiscal year 1980, the AID mission received 26 requests for funding. This program provides AID with good exposure to the Jamaican people, because the grants receive recognition in local newspapers.

AID monitoring of these projects at the mission level is lax. We were told that one problem involves getting the grantees to send in progress reports once the grant has been received.

#### Science and Technology-Energy

AID's Science and Technology-Energy project is still being developed, but is aimed at assisting Jamaica with its very serious energy problem. Jamaica is almost totally dependent on foreign oil to meet its energy needs. This project would help Jamaica strengthen its institutional capacity to deal with its energy problems, would expand and improve its energy conservation program, and would undertake

a program to develop its alternative energy sources. These objectives coincide with those of Jamaica's 5-year national energy plan (1978-83). Proposed funding consists of a first stage grant for \$200,000 and a second stage loan of \$10.2 million.

#### AID regional program has moderate impact on Jamaica

AID's RDO/C selected development activity program has a moderate impact on Jamaica. AID has contributed \$5.1 million in selected development activities funds to Jamaica through the Caribbean Development Facility, details of which are found in Chapter 4. The RDO/C also has an alternative energy system project. Although Jamaica is eligible to participate, it is not expected to since this project is similar to the bilateral science and technology-energy project discussed above. Jamaica is also eligible to participate in an environmental management project and a Caribbean economic cooperation project, but neither has been approved.

#### IMPACT OF CURRENT EVENTS ON AID'S PROGRAM

The AID program appears to be meeting many of Jamaica's most pressing needs, despite serious economic problems. The goals of Jamaica and of AID are most compatible in the areas of agriculture, education and balance-of-payment support. The need for higher agricultural output, training for managerial and skilled labor positions, as well as basic economic support are generally recognized. AID and Jamaican goals appear less compatible in the health and population sector, because of the Government's deemphasis on social programs in favor of economically productive programs.

Nearly all AID projects are experiencing problems, such as, inadequate project planning, poor commodity procurement, inability of the implementing agency to manage the project or differences between AID and the Government concerning project goals and intent. Though these problems are sometimes serious, they are usually manageable.

The problems that are most worrisome, since they could have a major impact on AID's success, are those due to Jamaica's failing economy. Because of their special status, AID projects, like those of other external donors, are somewhat insulated against the economy. Nevertheless, these projects must operate in a climate where local commodities are often in short supply, there are not enough managers and other skilled people, basic infrastructure is deteriorating, inflation is high and the host-government budget is strained. The Jamaican Government commitment to AID's projects is



largely unquestioned and AID and Jamaican officials are generally confident that the Government will be able to continue each project once AID support of the project ends. However, given the economic conditions that exist in Jamaica, which has threatened Jamaica's ability to absorb additional project assistance, we are concerned that project expansion may be difficult. If the economy stabilizes or improves, AID projects have a reasonable chance for success. If the economy deteriorates further, AID projects will surely suffer.

AID recognizes the detrimental effect that Jamaica's worsening economic conditions can have on its program. The AID program strategy remains flexible so that it can narrow its focus, if necessary. Emphasis is now placed on development assistance to productive sectors, which supports Jamaican priorities. AID is responding to the current economic crisis with balance-of-payment programs. If economic conditions change, AID is ready with fast disbursing, rapid impact assistance, similar to the commodity import program. If the economy begins to recover, AID plans to give enough assistance to accelerate recovery and reinforce its development program. AID realizes that it cannot, by itself, assist Jamaica in solving its problems. Because of their larger resources, multilateral agencies, such as the World Bank and the International Monetary Fund, will be expected to take the lead in assistance to Jamaica.

Events in the next few months will have a great impact on Jamaica's future. It is now uncertain how and whether the Government of Jamaica/IMF differences will be resolved, what the results of the Fall elections will be and in what direction Jamaica's economy will go. By the end of 1980, AID should be more certain of Jamaica's needs. Until then, AID plans to take a cautious stance regarding future funding strategy.

#### AGENCY COMMENTS AND OUR RESPONSE

AID officials told us that overall this chapter accurately depicted the status of its assistance program to Jamaica. They did suggest some changes that they believed would improve the accuracy of the report. We made these changes, as appropriate.

AID also requested that we explicitly state that Jamaica's present economic situation does not preclude continuance of the AID/Jamaica program. We believe that the success of the program depends on the Jamaican economy. If economic conditions worsen, the program will surely be affected. We believe that the information in this chapter

will be helpful to the Congress, which is ultimately responsible for deciding the direction of the AID program.

AID believes that although Jamaica's absorptive capacity has decreased in recent years as a result of economic, political and social factors; it is still greater than the absorptive capacities of most developing countries. Therefore, AID is of the opinion that we have overemphasized Jamaica's limitations on absorptive capacity.

This report gives several examples demonstrating that Jamaica, because of losses of skilled personnel, shortages of foreign exchange and other reasons, is having difficulty in efficiently utilizing external assistance. Furthermore, the situation is not improving. Regardless of how Jamaica compares with other countries, it does have and may continue to have a serious problem absorbing external assistance. (See appendix IV for agency comments.)

## CHAPTER 4

### THE CARIBBEAN DEVELOPMENT FACILITY

Developing countries can best utilize external aid provided that a well planned and coordinated effort exists between the host government and its donors. With this in mind, the Caribbean Group for Cooperation in Economic Development was established with CDF financing the local costs of donor-supported programs. Even with local cost financing, many projects continue to experience delays with those projects specifically directed at Jamaica experiencing even greater difficulty. AID has committed \$40 million to the CDF, with more than half going to Jamaica. Most of the monitoring functions have been delegated to the prime donors, therefore, AID's ability to assure proper project implementation and use of funds is limited.

#### CDF: A MECHANISM FOR ASSISTANCE

The Caribbean Group for Cooperation in Economic Development (the Group) was established in 1978 under the leadership of the World Bank, as a consultative mechanism for addressing the problems of the Caribbean countries in a comprehensive way. The Group is sponsored by the World Bank, the International Monetary Fund, the Inter-American Development Bank and the Caribbean Development Bank. Its purpose is to provide an economic framework for promoting increased economic assistance to the region and more effective utilization of assistance. The Group encompasses all the developing countries of the Caribbean (except Cuba), and involves the major multilateral donor agencies and the principal donors with an interest in the region. At the Group's meetings, the Caribbean countries' development assistance needs are assessed and donor pledges are finalized.

At the first formal meeting of the Group in June 1978, the CDF was established as a temporary mechanism for the purpose of promoting and coordinating external assistance to Caribbean governments. The objective of the CDF is to enable the countries of the Caribbean to maintain adequate levels of development expenditures, and hence employment and outputs while simultaneously pursuing economic policies required for economic stabilization and growth with equity. The CDF finances the local contribution to donor-assisted development projects, thereby permitting the recipient governments to utilize the external project assistance available to them. In small less developed countries of the Eastern Caribbean, the CDF provides support for common services and for foreign exchange costs.

CDF funding increases despite recipient countries' difficulties in drawing down funds

Donor pledges for the first year's operations of the CDF totaled \$204 million. AID pledged a \$20 million CDF loan, to be administered by the Caribbean Development Bank, and a \$17.5 million proposed increment of P.L. 480 title I/III assistance for the region. Other donors pledged \$77.4 million. The AID/CDF loan was allocated as follows:

AID/CDF Country Allocations  
------(millions)-----

Jamaica	\$ 11.1
Guyana	5.4
Barbados	1.5
Caribbean Common Market Less Developed Countries (LDCs)	<u>2.0</u>
Total	\$ <u>20.0</u>

The funds were allocated by country along functional areas such as food and nutrition, population and health, education, and special development projects. The original assistance completion date was September 30, 1979, except for the less developed countries which have until 1982. Of the \$18 million for Jamaica, Guyana, and Barbados, \$16.3 million was disbursed by February 1, 1980. As of June 1980, \$612,000 of the funds allocated for the less developed countries were spent. The P.L. 480 resources were given to Haiti and the Dominican Republic.

CDF recipient countries are experiencing project implementation difficulties even though local cost financing, a traditional obstacle, is provided. One of the major problems is the inability of the recipient countries to use the amount of funds allocated in a timely manner due to slow project implementation or delays in submitting vouchers for reimbursement. The first CDF loan was extended one year for this reason. Jamaica was particularly slow in submitting vouchers, but AID reports that recently all vouchers were received for CDF expenditures. A CDF official estimated that \$3 million of the second AID/CDF allocation to Jamaica will probably also not be absorbed over the specified time period.

Another problem, according to an official of the Caribbean Development Bank, is the inflexibility in the use of AID/CDF funds by the Bank. AID funds are appropriated in five functional categories and it is not possible to transfer funds from one category to another.

Some project delays can also be attributed to the general economic situation which has resulted in shortages of construction materials and other equipment and supplies.

Total contributions (all donors) to the second CDF loan (CDF II) have increased considerably over the first loan (CDF I), even though countries were experiencing difficulties drawing down funds. Initial pledges totaled \$226.3 million including balance-of-payment support. After the second Caribbean Group meeting, pledges increased to about \$326 million during the 1979-80 period. The United States contributed about \$78 million. This included P.L. 480, undisbursed prior year funds and CDF II funds of \$20 million. AID allocated \$17.5 million to Jamaica, Guyana and Barbados (\$10 million allocated to Jamaica) and a \$2.5 million grant to the LDCs. A grant was made rather than a loan to provide more expeditious and effective assistance to these areas. (See table 2 for list of projects).

#### Analysis of Caribbean Group's first year

In May 1979, the World Bank completed a broad review of the initial results and prospects of the Caribbean Group. The report indicated that the degree of progress achieved varied greatly from country to country. Jamaica, while achieving substantial progress in adjusting to the IMF terms, failed to increase investment production, and employment as had been planned. The report suggested the highest priority be given to regional programs in the fields of export industries, tourism, energy and agriculture. CDF projects were not individually assessed.

#### Monitoring and reporting responsibilities of CDF sponsors

Project implementation and other responsibilities for CDF activities fall upon various entities including (1) CDF, (2) the Caribbean Development Bank, (3) the prime donors, and (4) AID. Much of the responsibility for monitoring and evaluating AID-supported projects has been delegated to the prime donors and the Caribbean Development Bank, thus AID can

Table 2

CARIBBEAN DEVELOPMENT FACILITY PROJECTS  
RECEIVING OR ELIGIBLE TO RECEIVE AID FUNDS  
SEPTEMBER 30, 1979

Recipient country	Project	Prime donor	Total project costs	AID funding for	
				CDF I (actual)	CDF II (anticipated)
-----millions of dollars-----					
Jamaica	First rural development	World Bank	31.40	.67	3.10
	Small-scale enterprise development	World Bank	11.65	1.06	.50
	Second popula- tion	World Bank	14.19	1.48	2.25
	Sites and services	World Bank	21.80	1.54	4.50
	Second education	World Bank	22.84	.80	.26
	Self-supporting farmers' develop- ment program	Inter-American Development Bank	9.00	3.09	1.97
	Students' loan fund II	Inter-American Development Bank	9.30	.20	.24
	Secondary main and parish council roads	Inter-American Development Bank	20.70	-	.09
	Parish retail markets recon- struction	Inter-American Development Bank	10.00	-	.73
	Montego Bay/ Falmouth water supply	Inter-American Development Bank	20.00	-	.66
	Greater Mandeville water supply scheme	Inter-American Development Bank	15.80	-	.81
	Fourth highway	World Bank	23.30	-	3.26

Recipient country	Project	Prime donor	Total project costs	AID funding for	
				CDF I (actual)	CDF II (anticipated)
-----millions of dollars-----					
	Micro-dams	European Development Fund	14.26	-	.85
Guyana	Mahaica-Mahaicony- Abary water control	Inter-American Development Bank	82.00	.80	7.20
	West Demerara road	World Bank	8.20	1.24	-
	Tapakuma irriga- tion	World Bank	40.40	1.96	4.30
	Second education	World Bank	18.90	.15	4.69
Barbados	Samuel Jackman Prescod Poly- technic	Inter-American Development Bank	10.60	.50	.70
	Industrial estates second loan	Caribbean Development Bank	5.10	.40	.40
	Agricultural credit second loan	Caribbean Development Bank	1.16	-	.08
	Barbados Marketing Corp.	Caribbean Development Bank	2.91	-	.20
	Oistins fish- eries terminal	European Development Bank	1.80	-	.19
	Bridgetown sanitary sewage system	Inter-American Development Bank	19.92	-	1.50
	First education	World Bank	14.50	-	2.25
St. Lucia	Rural electri- fication	Caribbean Development Bank	.36	-	.31
	<b>TOTAL</b>		<u>430.09</u>	<u>13.89</u>	<u>41.04</u>

Note: CDF II figures represent maximum levels of funding for eligible projects. Final determination will be made by the Caribbean Development Bank based on AID contribution.

not assure proper use of its funds except through adequate reporting by the CDB and the prime donors, and periodic project inspections by AID staff.

#### CDF

An informal working group led by the World Bank coordinates assistance through the CDF. The working group facilitates communication between the Caribbean Development Bank and the primary donor. Participant countries qualify for CDF assistance through Caribbean Group country reviews. The working group provides the Caribbean Development Bank with the results of the reviews indicating whether the country is eligible for CDF assistance. In addition, the working group assists the Caribbean Development Bank to the extent necessary, in obtaining from the prime donors the specific documentation required for AID funds.

#### The Caribbean Development Bank

The Caribbean Development Bank makes subloans to participating countries to finance programs of economic stabilization and growth based on the general credit worthiness of the country. Proceeds of subloans are used by participating countries to meet the local, and in certain cases, foreign costs of eligible projects.

The Caribbean Development Bank is responsible for the financial monitoring of project funds, ensuring that all funds are utilized for the purposes as agreed between the participating country and the Bank. The Caribbean Development Bank asks the prime donor to certify project expenditure vouchers and to monitor payments itself. The Caribbean Development Bank disburses against vouchers presented by the participating country for expenditures on eligible projects. In addition working advances are permitted up to 90 days. Originally, the Caribbean Development Bank was more involved with the accounting, supervision and disbursement of project expenditure vouchers, but to make the effort less time consuming and burdensome to the Caribbean Development Bank, AID allowed the Caribbean Development Bank to rely on sub-borrowers' declarations that local costs for which reimbursement is requested meet AID source and origin criteria and other conditions.

It should be noted that a recent draft of an AID Auditor General's audit report on AID regional programs indicated that there is some question as to the Caribbean Development Bank's ability to adequately monitor projects. The report



recommended that RDO/C establish adequate monitoring procedures to minimize deficiencies affecting implementation of current programs.

### The prime donor

The prime donor is responsible for providing the Caribbean Development Bank with a written statement (with supporting documentation, if necessary) confirming that (1) the project is currently technically, economically and financially feasible; (2) the financial plan for the project prepared by the prime donor has been reviewed and updated; (3) the project will not have a significant adverse effect on the human environment, or that if it does have such effect that a satisfactory environmental analysis has been prepared; and (4) the project will have a significant impact upon the poor in the recipient country, including a brief explanation of how such an impact will be achieved.

The prime donor of each project funded through CDF is responsible for overall supervision and monitoring of project implementation. In Jamaica, for example, the prime donor on AID-supported projects are the World Bank and the Inter-American Development Bank. These donors follow their respective procedures for managing the projects.

### AID

AID does not take part in the selection of projects to be financed by AID/CDF funds, but selected projects must meet AID eligibility criteria. AID's CDF monitoring responsibilities fall on two offices--the Bureau for Latin America and the Caribbean, Office of Caribbean Affairs (LAC/CAR), and the RDO/C. LAC/CAR is responsible for monitoring, evaluating, and maintaining the relationship with the CDF. This includes determining whether the U.S. Government should proceed with future funding. This is done through participation in the Caribbean Group meetings and subgroup activities. According to AID, the development of the U.S. position regarding continuing support of the CDF must take into account (a) the extent to which the AID project has succeeded in raising development investment levels in the English-speaking Caribbean and accelerating the implementation of donor assisted projects, and (b) the extent to which progress has been made by CDF recipients towards executing the economic policy reforms and achieving the goals to which the countries committed themselves in qualifying for assistance through the CDF. In light of Jamaica's inability to promote economic growth and stabilization, whether or not to continue with

CDF II funds will be discussed at the next meeting of the Group. Likewise, Jamaica may not be eligible for CDF III assistance unless economic recovery is demonstrated.

RDO/C is responsible for monitoring and assisting the Caribbean Development Bank in the smooth and timely implementation of the loan. However, RDO/C depends on the Caribbean Development Bank for monitoring AID contributions to the CDF. RDO/C should receive quarterly project progress reports from the Bank according to the terms of the loan implementation letter. These reports should include (1) statistical sections which show cumulative totals of expenditures for all eligible projects and (2) copies of the Bank's internal supervision reports. Where the prime donor is other than the Caribbean Development Bank, the bank must arrange to obtain and transmit to AID copies of the prime donors' supervision, monitoring, or other progress reports. The RDO/C has not received these progress reports regularly.

The AID bilateral missions are not involved with CDF activities, including selection of projects. They do not routinely monitor AID-funded CDF projects within their respective countries. We found no evidence of CDF project surveillance at the Jamaican mission, although, mission personnel admitted they would like more information about AID/CDF projects in their region.

#### INADEQUATE MONITORING AND EVALUATION OF AID/CDF PROJECTS

RDO/C has not received copies of the prime donors' supervision and monitoring reports on a regular basis. It appears that the Caribbean Development Bank does not routinely receive these respective reports from the prime donors or host countries; therefore, they can not submit them to RDO/C.

Officials of an international financial institution indicated that it has no specific project reporting requirements to the Caribbean Development Bank regarding its CDF financed projects. There are no set time periods for submitting progress and/or evaluation reports on CDF financed projects. The institution has frequent consultations with Caribbean Development Bank agents, but sends copies of project supervision reports to the CDF at random. Specifically, progress and/or evaluation reports are prepared and subsequently submitted to the Caribbean Development Bank only when the implementing institution feels they are necessary. They do not send any of these reports directly to AID.

Because RDO/C has little direct contact with the prime donors, these reports serve as the primary mechanism for

routine RDO/C monitoring of CDF projects. Therefore, the routine unavailability of these reports puts RDO/C at a disadvantage regarding the assurance of the proper use of project funds.

### The annual evaluation

An annual evaluation of projects receiving AID/CDF funds is required to be performed by representatives of RDO/C, LAC/CAR and the Caribbean Development Bank. In September 1979, the first evaluation was performed. AID and the Caribbean Development Bank did a joint review of project implementation under the first loan. They concluded that the more developed countries (Jamaica, Guyana, and Barbados) were successfully supporting 13 projects, but the September 30, 1979 project completion date would not be met. A 1-year extension was subsequently granted to disburse all funds.

The evaluation team visited RDO/C and each of the recipient countries. They held discussions with AID and host country project managers and officials (i.e., ministers of finance) and reviewed project files and available progress reports. They did not visit respective project sites, thus, relying on discussions and reviewing files rather than first hand observations. The review team found the available information at RDO/C to be limited, yet found the Caribbean Development Bank to be more resourceful. But, even at the Caribbean Development Bank some up-to-date progress reports were not readily available. Overall, project evaluations generally did not reflect whether planned targets were met, or comment on whether the technical, financial and economic projections were reasonable. These are important considerations in determining future funding levels.

In addition to relying on project monitoring and annual evaluation activities, for accountability, AID has the right to audit the financial records of AID/CDF project expenditures. To date, they have not exercised this option.

### CONCLUSIONS

One CDF objective is the fostering of economic stabilization policies. Countries are eligible for project assistance provided that agreement has been reached with CDF on appropriate development and investment programs. Therefore, if countries such as Jamaica fail to maintain a stable economy, it could effect their accessibility to AID/CDF funding.

AID monitoring of CDF is inadequate. AID staff, both RDO/C and bilateral missions, do not directly monitor nor periodically visit AID/CDF donor projects. AID does not regularly receive project progress reports through the Caribbean Development Bank which AID needs to be fully aware of project progress and problems. More emphasis should be placed on monitoring of AID/CDF financed projects. This includes efforts to enforce more timely acquisition of project progress reports, as well as visiting project sites to assure proper use of funds.

The annual evaluation, completed September 1979, generally, did not comment on the ability of the participating country to meet specified targets. AID relies on the Caribbean Development Bank and ultimately the prime donors, by agreement, to assure project progress and compliance without performing its own independent verification through an annual review or audit. AID's decision to continue with the second CDF agreement appears to have been made without adequate knowledge of the outcome of the first loan.

#### AGENCY COMMENTS AND OUR RESPONSE

In our draft report, we suggested that AID (1) routinely monitor projects supported by CDF by visiting projects, requiring submission of progress reports, and spot-checking Caribbean Development Bank operations; and (2) independently evaluate or audit AID/CDF projects to assure proper compliance with specified targets.

In commenting on these suggestions AID told us that they felt that primary responsibility for managing and monitoring the activities funded under the AID/CDF project should be the responsibility of the primary donors. AID representatives also said that they interpreted our suggestion to mean that their agency had to establish an additional management system to monitor the progress of U.S. funds applied to these projects.

We agree with the agency policy that the primary donors for the type of projects discussed in this chapter should bear the primary responsibility for project management and direction. It is not our intent to suggest that AID establish a dual and separate project management system to duplicate the systems already in place by the prime donors. We do believe, however, that AID needs to independently assure itself that the funds provided to these projects are efficiently and effectively used. It is our belief, also,

that AID has not to date exercised sufficient independent surveillance over the funds expended through the CDF and that its evaluations were not adequate assessments of project progress and accomplishments.

After clarifying this issue, AID agreed with our suggestions for increasing visibility over project results and for improving evaluation procedures.

#### RECOMMENDATIONS

Accordingly, we recommend that the Administrator, Agency for International Development:

- insure that the Caribbean Development Bank improve the frequency of transmission of prime donor project monitoring reports to AID to assure full awareness by AID and Caribbean Development Bank of project progress and problems. AID should also insure that AID staff periodically visit AID/CDF project sites to supplement and verify information provided by prime donor reports; and
- improve its AID/CDF evaluation process so that project evaluations provide for on-site visits and address all major issues dealing with (a) project progress vis-s-vis planned targets and objectives and (b) feasibility questions as they might arise.

DONOR ASSISTANCE TO JAMAICA

The Government of Jamaica identified 27 countries and 9 multilateral agencies with which it had cooperation agreements in 1978. This figure has since increased. One Government official told us during our visit in January 1980 that there are from 40 to 50 donors in Jamaica. Many of these donors have project efforts in the same sectors. According to AID officials, the coordination of this assistance places a heavy burden on the Government's already heavily strained management resources.

The majority of the assistance that Jamaica has received has been in the form of fast disbursing lines of credit and balance-of-payment support. Project loan and grant assistance has been concentrated in the sectors of agriculture, health, education, and energy.

AID reported that in 1978 Jamaica received total capital and technical assistance of \$200 million from nine major bilateral donors. According to the Organization for Economic Cooperation and Development the amount of assistance commitments that Jamaica received in 1978 ranked sixth out of 45 western hemisphere countries and territories receiving development assistance. In 1975, Jamaica ranked twenty-first of these 45 countries and territories. Thus, the priority of providing assistance to Jamaica increased significantly.

The following tables and chart show the major activities of many of the foreign bilateral and multilateral donors in Jamaica. The multilateral donors have provided the largest amount of project funding and balance-of-payment support. Bilateral support comes primarily from the free world countries, but Jamaica also receives significant assistance from Communist countries.

Table 3 shows that the three major multilateral donors--the World Bank, the Inter-American Development Bank and the International Monetary Fund--have greatly increased their assistance to Jamaica in recent years. Table 4 shows that a similar trend exists for four major bilateral donors. Chart 1 that follows shows the principal development activities of many of the foreign donors.

Table 3Major Multilateral Donors  
Assistance to Jamaica

<u>Year(a)</u>	<u>World Bank/ International Bank for Reconstruction and Development</u>	<u>Inter-American Development Bank</u>	<u>International Monetary Fund</u>
----- (millions of U.S. dollars) -----			
1979	66.5	34.1	196.4
1978	68.0	13.7	45.1
1977	15.0	21.3	74.7
1976	6.8	17.5	-
Prior years	129.4 (b)	66.0 (c)	- (d)

(a) Year is calendar year, except for the World Bank, whose year is from July 1 to June 30.

(b) Total assistance given between 1965 and 1975.

(c) Total assistance given between 1969 (the year Jamaica joined the Bank) through 1975.

(d) 1970 through 1975.

Table 4Selected Major Bilateral Donors'  
Commitments to Jamaica

<u>Calendar Year</u>	<u>Canada</u>	<u>United Kingdom</u>	<u>W. Germany</u>	<u>Netherlands</u>
----- (rounded to millions of U.S. dollars) -----				
1978	11	26	2	31
1977	11	2	6	8
1976	14	1	5	8
1975	4	2	2	1

Source: Development Assistance Committee of the Organization for Economic Cooperation and Development.

Communist countries, as shown in the following chart, have become active in Jamaica's development. The People's Republic of China agreed in 1976 to construct a textile mill in Jamaica and to provide Jamaica with various agricultural commodities. The Soviet Union agreed in 1977 to assist Jamaica

JAMAICA DONOR ASSISTANCE BY SECTOR-1978													
Donor	Sector	Agriculture and Rural Development	Education	Health	Nutrition	Population and Family Planning	Community and Urban Development and Social Welfare	Dam Construction	Transportation and Communication	Energy and Natural Resources	Industrial Development	Export Promotion	Water Supply
Canada		•	•		•				•	•	•		
Commonwealth Fund for Technical Co-operation			•									•	
Cuba		•	•	•				•			•		
European Development Fund			•				•	•				•	
European Economic Community		•	•		•			•					
Federal Republic of Germany			•			•	•			•	•		
France													•
Hungary				•							•		
Inter-American Development Bank		•	•								•	•	•
Japan		•											
Netherlands											•		
New Zealand		•	•								•		
Nigeria												•	
Norway		•							•	•			
Organization of American States		•	•							•	•		
Pan American Health/ World Health Organization		•		•									
People's Republic of China											•		
Union of Soviet Socialist Republics											•		
United Kingdom		•					•			•			
United Nations Development Program		•	•	•					•	•	•		
United Nations-Other Programs			•	•	•	•					•		
United States		•	•	•	•	•	•						
Venezuela			•										•
World Bank		•				•				•	•		
World Food Program					•								



to construct a cement plant and three trade training centers and prospect for hard minerals. Hungary is helping Jamaica build an alumina plant and has extended to Jamaica a \$10 million line of credit for the purchase of medical equipment. Cuba has been active in Jamaica, especially in the areas of construction, agriculture, health and education. Cuban assistance includes the construction of irrigation dams and sports complexes, and the provision of medical and agricultural specialists.

#### The U.S. presence

The American Ambassador to Jamaica stated that in 1979 the United States contributed about \$84 million in loans and grants to Jamaica partly through the bilateral AID program and partly through U.S. funding to the World Bank, the Inter-American Development Bank, and the International Monetary Fund. In addition to its support for AID and the multilateral agencies, the U.S. Government funds two other programs that assist Jamaica. One program is the Peace Corps, which has 152 volunteers and 27 trainees in Jamaica. There are 35 volunteers assisting on various AID projects including rural development and nutrition. The Peace Corps/Jamaica budget for FY 1979 was \$1.3 million. The other program is the Inter-American Foundation, which provides funds for non-government self-help activities. Since 1977, the Foundation has committed about \$900,000 to such projects in Jamaica. In addition to U.S. support, numerous private voluntary organizations also provide development assistance to Jamaica.

AVERAGE EXCHANGE RATE

Jamaican dollars vs. U.S. dollars

<u>Year</u>	<u>Jamaican dollars</u>		<u>U.S. dollars</u>
1973 - 1977	1.00	=	1.100
1978	1.00	=	.727
1979	1.00	=	.566

Source: International Financial Statistics, April 1980,  
International Monetary Fund.

STATUS OF AID PROJECTS ACTIVE AS OF MARCH 1980

<u>Project</u>	<u>Grant (G) or Loan (L)</u>	<u>Calendar Year Started</u>	<u>Estimated Calendar Year Completed</u>	<u>Authorized</u>	<u>Obligations As of 3/31/80 (000 omitted)</u>	<u>Expenditures As of 3/31/80</u>	<u>Expenditures as a percent of authorizations</u>
Inland Fisheries Development	G	1976	1980	493	455	426	86.4
Integrated Rural Development	L	1977	1982	13,000	13,000	2,373	18.3
Integrated Rural Development	G	1977	1982	2,000	1,950	1,013	50.7
Fish Production System Development	L	1979	1983	2,740	2,740	23	0.8
Fish Production System Development	G	1979	1983	1,367	380	13	1.0
Agriculture Planning	G	1979	1984	2,328	450	14	0.6
Rural Education Sector	L	1975	1980	11,200	11,200	5,874	52.4
Manpower Planning, Training and Employment	G	1978	1981	950	621	290	30.5
National Planning	G	1978	1980	635	635	592	93.2
Vocational Skills Training	G	1979	1982	500	160	35	7.0
Social Development Services Delivery	G	1978	1981	249	170	159	63.9
Family Planning Services	G	1976	1981	2,430	1,771	1,133	46.6
Health Improvement for Young Children	G	1976	1980	375	372	222	59.2
Rural Community Nutrition and Income Improvement	G	1977	1981	237	237	160	67.5

Sources: AID Project Financial Activity Reports (3/31/80) and other AID documents.

June 13, 1980

## MEMORANDUM

TO : Mr. J. K. Fasick, Director, International Division,  
U.S. General Accounting Office

FROM : AAA/LAC, *Edward Coy*  
Edward Coy

SUBJECT: GAO Draft Audit Report on AID Program in Jamaica

As requested in your letter of May 15, 1980 to the AID Administrator, this is to provide you our comments on the subject report. The comments are organized in two categories: (a) those dealing with the Caribbean Development Facility, and (b) those concerning the AID bilateral program in Jamaica per se.

Caribbean Development Facility

The draft report makes two recommendations and both concern the Caribbean Development Facility. The report recommends that AID:

- routinely monitor projects supported by the Caribbean Development Facility (CDF) by visiting projects, requiring submission of progress reports, and spot-checking Caribbean Development Bank (CDB) operations; and
- independently evaluate or audit AID/CDF projects to assure proper compliance with specified targets.

We have serious reservations about these recommendations. We believe that the projects are being monitored effectively by the prime donors and that the AID evaluation effectively measured progress against targets and objectives. The activities in question are World Bank and Inter-American Development Bank (IDB) projects which were designed by them and are being implemented under their direct supervision. AID/CDF funds provide only local counterpart financing for the projects. Funding for all other costs is provided by the prime donors. We feel that it is therefore appropriate and reasonable that AID rely on the prime donors for project monitoring and supervision of their own projects.

AID funding to the CDF was predicated on, and designed in accordance with, such a system in the interest of economy and to avoid duplication of effort. Both banks have been in fact providing completely satisfactory monitoring at a substantial saving to AID. AID and the CDB would have to add substantial staff to monitor effectively these projects directly, and

- 2 -

assigning such staff would not only be redundant but also represent a major cost. Given the varied project locations spread throughout the Caribbean, the monitoring of sub-projects solely by the RDO/C would place a severe strain on staff time and adversely affect the monitoring of other programs undertaken by AID through its Caribbean regional program.

The most cost-effective manner of supervising and monitoring the CDF program is to rely on the highly professional skills and capability of the World Bank and IDB. The U.S. is a member of both institutions and contributes substantial funds for development projects carried out by the banks in Latin America and other areas of the world without the need for AID involvement in monitoring or supervision.

The allegation that project monitoring is not now adequate is apparently based on the finding that the CDB does not consistently receive supervision and monitoring reports from the prime donors. In fact, the IBRD and IDB have not supplied the CDB with such reports as often as we and the CDB would like. However, the fact that prime donor reporting has not been as consistent as desirable does not mean that project monitoring is not satisfactory. It simply indicates that there is a problem in report transmission. We are taking action to resolve this problem.

Heretofore, the prime donors have been reluctant to provide supervision reports to the CDB in cases where comments on specific personalities or political judgments are involved. We plan to resolve this issue by requesting that the prime donors transmit edited versions of the reports to the CDB and/or by having the original reports sent directly to AID. The important point is that responsible and professional project monitoring is in fact taking place by the prime donors. World Bank and IDB staff routinely are visiting projects, overseeing project implementation and progress, and dealing with problems as they arise. It would be a serious error to jump from the relatively minor procedural difficulty of report transmissions to the conclusion that project monitoring is deficient in some respect. We believe it is more appropriate to iron out a minor flaw in the system than to scrap the machinery and erect a duplicate system at great cost to AID.

Moreover, it should be recognized that the CDB is an Intermediate Credit Institution (ICI) and that the approach employed by AID for monitoring AID/CDF funds is in conformity with Agency policy regarding ICI loans. Typically, loans are made to ICIs when broad impact on a sector or target group is desired rather than when a more discrete project is to be undertaken. Agency

- 3 -

policy recognizes that, when an ICI loan such as the CDF loan is to be implemented, AID's sub-project monitoring role often must be more limited than would otherwise be the case. For example, HB 1B, Chapter 19 states that:

"The degree of control which AID may exercise over this type of (ICI) procurement is, as a practical matter, limited by the fact that the subborrower may be separated from the AID borrower by one or more intermediaries and, in addition, the subborrowers frequently are small businessmen or farmers unaccustomed and frequently incapable of responding to many conditions normally laid down by an international financing agency."

Notwithstanding these provisions in AID policy, the RDO/C does monitor the disbursement of the loan through direct contact almost daily with the CDB and through statistical reports of loan disbursement. Thus, the monitoring roles and responsibilities followed in implementing the CDF project are in conformity with Agency policy and, in our judgment, are sound and reasonable based on analysis undertaken during the project design process.

Regarding the second recommendation, we believe that the AID evaluation of CDF I carried out in 1979 was effective and satisfactory and addressed the implementation and status of all sub-projects.

The audit report recommendation that AID independently evaluate or audit AID/CDF projects is presumably based on the finding that the above-mentioned evaluation was deficient, in that it did not comment on the technical, financial, and economic feasibility of the AID/CDF activities. We believe there is some confusion on this point. An evaluation is not intended to carry out basic project feasibility analysis. These questions are addressed prior to approval of the project by the prime donors and are specifically taken up in the Board meetings of the World Bank or IDB, as the case may be, where the U.S. is represented by its Executive Director. In all cases this was done. Moreover, confirmation is provided by the prime donor and the CDB in meeting Condition Precedent 5.2(c) which requires certification to AID that projects are technically, financially and economically feasible.

The proper role of evaluation is to assess progress against planned targets and objectives. An evaluation might reexamine basic feasibility assumptions if questions in this regard arose in the course of the evaluation, but this was not the case in the AID/CDF evaluation. Consequently, the evaluation limited itself to the areas of planned targets and objectives.

- 4 -

The AID evaluation team did not have sufficient time to make visits at each project site, but RDO/C, CDB and prime-donor staff have done so in the course of project implementation. Nonetheless, future AID evaluations will endeavor to include as many project visits as possible.

Unless projects are suspect of non-compliance, RDO/C would not generally request an audit other than that normally scheduled by the AID area auditor staff.

We request that both recommendations be modified as follows:

- While recognizing that the IDB and IBRD have primary responsibility for project management and monitoring, AID should require that the CDB improve the frequency of transmission of prime donor project monitoring reports to the CDB and AID to assure full awareness by AID and CDB of project progress and problems. AID should also insure that AID staff periodically visit AID/CDF project sites to supplement and verify information provided by prime donor reports.
  
- AID should improve its AID/CDF evaluation process so that project evaluations provide for on-site visits and address all major issues dealing with (a) project progress vis-a-vis planned targets and objectives, and (b) feasibility questions as they might arise.

#### AID Program in Jamaica

The draft report does not include any recommendations about the AID bilateral program in Jamaica. With respect to the overall impact of the economic and political situation in Jamaica on the AID program, the report notes on pp. 38 and 39 that the "AID program appears to be meeting many of Jamaica's most pressing needs, despite serious economic problems."; that although AID project problems are sometimes serious, they are usually manageable; and that therefore the present economic situation does not preclude continuance of the AID program. We request that articulation of these points be more explicit in the digest in order to convey a more accurate impression of the report findings. Our other comments relate to observations and statements in the body of the report. We request that the digest and related sections of the report itself be modified to take into account our comments.

- 5 -

Absorptive Capacity and Project Expansion. (Para 4, Digest, and Para. 1, P. 39). We believe the phrase in the digest "near inability to absorb additional project assistance" is not warranted. It is also inconsistent with p. 39 of the report which states that current economic conditions have "threatened Jamaica's inability to absorb additional project assistance." This is a significant difference.

Norwithstanding the migration of recent years, Jamaica continues to have a better human-resource base with which to support development assistance efforts than many other LDCs. P. 12 of the report itself notes the limited effect of skilled migration on private sector operations. A basic core of institutional capability and human resource skills remain to provide satisfactory counterpart support to AID projects.

It is true that the absorptive capacity of the GOJ has diminished over the past years as a result of economic, political, and social factors. People have migrated leaving many public agencies and private businesses short of qualified middle management personnel. The report appears to argue that the reduced absorptive capacity has manifested itself in delays in current projects, and severely threatens the success of AID programs in the future. We do not believe that the existing situation in Jamaica is serious enough to warrant the emphasis given by the GAO (inter alia, pages 2, 14, 15, 16 and 22). Relative to the other countries in the LAC region, and even more so, to other LDCs in Africa and Asia, Jamaica's absorptive capacity is judged to be greater than a large majority of them. Neither the frequency or extent of problems associated with project implementation and maintenance in Jamaica are any worse than those experienced in other LAC countries and, in fact, appears better than in many. With regard to the possible worsening of the situation in the future, AID would, as it normally does, take this into consideration in designing individual projects to be undertaken.

In addition, the statement on p. 39 avers that "expansion of each project may be "difficult" while the statement in the digest uses the term "impossible." The digest should be corrected to accurately reflect the report.

Project Planning and Implementation. (Para 3 of Digest, and P. 38, Para. 4). Problems with AID projects in Jamaica in planning, commodity procurement and local implementation are essentially the same as those in other underdeveloped countries--and are perhaps less serious than in many. The digest suggests all AID projects are suffering from one or more of these problems extensively and for an indefinite duration. In fact, a project may suffer from one of the problems during its implementation. Such problems are often corrected rapidly because of close monitoring.



- 6 -

We suggest the fourth paragraph be written as follows:

"Nearly all of AID's projects are experiencing the normal problems of an underdeveloped country in the areas of project planning, commodity procurement and local implementation. Though some of these problems are serious, they appear quite manageable."

AID and GOJ Project Goals and Interests. (Para. 3, Digest and P. 38, Para. 3). Differences between AID and GOJ concerning project goals and interests are exceptional rather than commonplace as implied in the report. The draft report correctly notes on p. 19 that "AID strategy appears to be in line with Jamaica's five year development plan." On p. 20, Para. 4 of the report notes that "AID is largely supportive of GOJ goals and strategy."

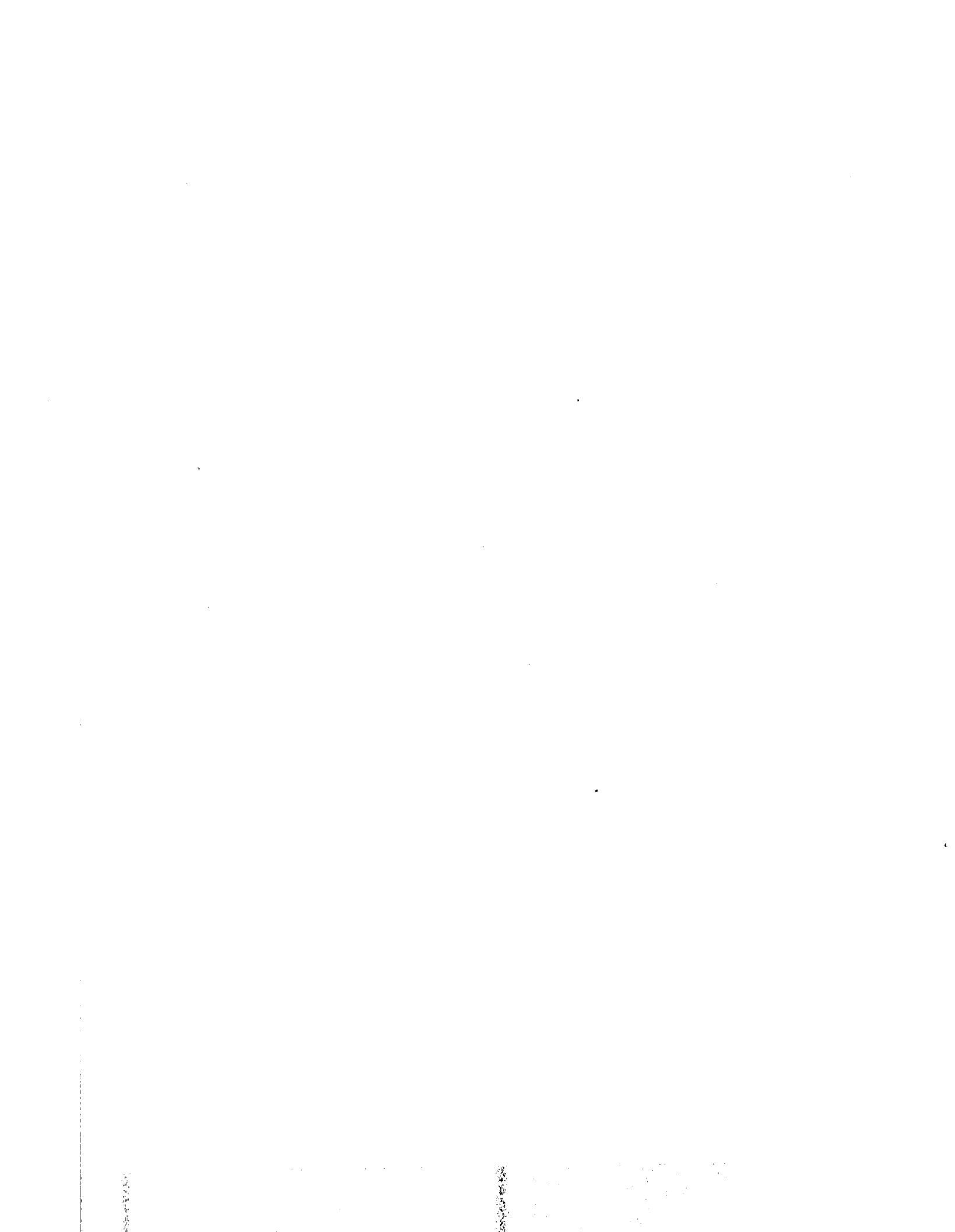
In certain cases differences are unavoidable. But we do not think this is inappropriate since AID must design and carry out projects in accordance with its Congressional mandate. Host country priorities and emphases do not always accord with the terms of this mandate for various reasons.

Project Expansion. (Para. 4, Digest, and Para. 1, P. 39). The GOJ does not intend to "expand" each project after termination of USG support. GOJ plans only to expand a few selected projects. Certain projects were designed to be replicated and expanded upon completion while others, such as institution building ones, were intended to be continued at more or less the same levels as provided in the projects. Moreover, we believe the last two sentences of Para. 1, P. 39 provide the proper context for this question and should be added to the digest.

"If the economy stabilizes or improves, AID's projects have a reasonable chance for success. If the economy deteriorates further, AID's projects will surely suffer."

Political and Economic Situation: (Para. 3, p. 4). The section on "Impact of Government Policies on the Economic Crisis" should, by reasons of accuracy and political sensitivity, refer to alleged political corruption.

(471790)



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