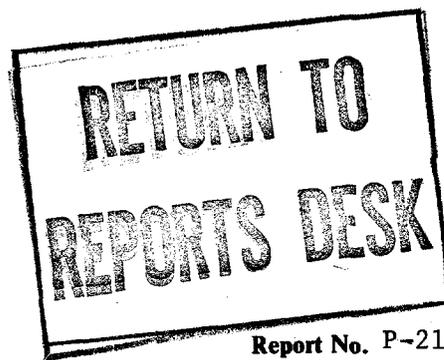


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Report No. P-2104-JM

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

JAMAICA

FOR A

FIRST RURAL DEVELOPMENT PROJECT

June 8, 1977

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Currency Equivalents

Currency Unit = Jamaican Dollar (J\$)

<u>Basic Rate</u> ^{1/}		<u>Special Rate</u>	
US\$.01	= J\$.0091	US\$.01	= J\$.0125
US\$1.00	= J\$.910	US\$1.00	= J\$1.25
J\$.01	= US\$.011	J\$.01	= US\$.008
J\$1.00	= US\$1.100	J\$1.00	= US\$.80

1/ The Basic Rate is applicable to the import of all essential goods, all Government transactions and all transactions of the bauxite industry. The Basic Rate has been used in calculating Project costs.

Government of Jamaica Fiscal Year - April 1 to March 31

Abbreviations

ACB	= Agricultural Credit Board
AMC	= Agricultural Marketing Corporating
CIDA	= Canadian International Development Agency
FAO/OP	= Food and Agriculture Organization Cooperative Programme
IDB	= Inter-American Development Bank
JDB	= Jamaica Development Bank
JPSC	= Jamaica Public Service Commission
LDUC	= Land Development and Utilization Commission
MOA	= Ministry of Agriculture
ODM	= Ministry of Overseas Development
PCB	= Peoples Cooperative Bank
PLL	= Project Land-Lease
SSFDP	= Self-Supporting Farmer's Development Programme
USAID	= United States Agency for International Development

JAMAICA - FIRST RURAL DEVELOPMENT PROJECTLoan and Project Summary

Borrower: Jamaica

Amount: US\$15 million

Terms: Payable in 17 years, including three-and-a-half years of grace at 8.2% per annum.

ProjectDescription:

The proposed project would support the Government's program to strengthen the rural economy and improve the living conditions of the rural population, so as to reduce rural-urban income disparities and curb rural-urban migration. The project would be located principally in the Western Region, which has an especially pronounced poverty problem. It would concentrate on removing key constraints to rural development not covered by other Government programs presently under execution or planned. The portion of the project dealing with the reorganization of the Ministry of Agriculture would be national in scope. The project would contain the following principal components.

- (a) Support for Ministry of Agriculture. Reincorporation of most agricultural services under the direct jurisdiction of the Ministry; restructuring of the Ministry along functional, as opposed to project lines; and a regionalization of the Ministry's technical services. Project investment would provide for additional facilities required for regionalization, including accommodations for two new regional offices, 30 additional local offices and 40 staff houses for remote areas; 30 four-wheel drive vehicles; and training for Ministry personnel.
- (b) Agricultural Settlement. Support of Government's Land Lease Program to reduce underutilization of agricultural land and rural unemployment by the Government's acquiring such underutilized land and leasing it to landless people and farmers with inadequate land. Project activities would include acquisition of 4,000 acres (in addition to 12,687 acres already purchased); elaboration of detailed physical plans for nine settlement areas; construction of settlement infrastructure, including 10 miles

of access roads, 10 miles of village roads, and 40 miles of farm roads and tracks; construction of 820 farmhouses and the corresponding water and electricity supply systems; selection and settlement of 1,400 families; provision of essential community facilities at the settlement sites to accommodate the settlement administration, social services and essential marketing requirements for agricultural inputs and outputs; land development (1,400 acres) and forestation (1,000 acres); and technical assistance to implement the settlement component.

- (c) Regional Infrastructure. Assistance to the Government's program to improve the economic and social infrastructure in the Western Region. Project activities would include the construction/reconstruction of 70 miles of rural feeder roads; construction/rehabilitation of nine parish markets; extension of 37 water supply systems; and construction of 6,000 waste disposal units.

Estimated Cost and
Financing Plan:

Total project cost is estimated at US\$31.4 million. Foreign exchange and local currency costs are estimated at US\$8.5 million and US\$22.9 million, respectively. Project financing requirements would be met by the Bank loan (US\$15 million), and the Jamaican Government (US\$16.4 million). The Bank loan would finance 48% of the project cost and, in addition to its foreign exchange content, would cover US\$6.5 million equivalent of the project's local cost.

Project

Cost Summary:

	-----US\$ Million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
<u>I. Support for Ministry of Agriculture</u>			
Regional and local office	1.2	0.3	1.5
Staff housing	0.5	0.3	0.8
Training and technical assistance	0.3	0.3	0.6
Vehicles	<u>-</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	2.0	1.1	3.1
<u>II. Agricultural Settlement</u>			
Land acquisition	4.0	-	4.0
Farmhousing	1.6	0.5	2.1
Water supply	0.3	0.2	0.5
Electrification	0.1	0.1	0.2
Settlement roads	1.7	0.8	2.5
Community facilities	0.4	0.2	0.6
Soil conservation and forestation	1.2	0.1	1.3
Physical planning	0.5	0.1	0.6
Administration and supervision	<u>0.6</u>	<u>0.1</u>	<u>0.7</u>
Subtotal	10.4	2.1	12.5
<u>III. Regional Infrastructure</u>			
Feeder roads	2.3	1.2	3.5
Markets	1.9	0.7	2.6
Water supply	1.4	1.5	2.9
Sanitation	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
Sub-total	5.7	3.5	9.2
<u>Base Cost</u>	<u>18.1</u>	<u>6.7</u>	<u>24.8</u>
Contingencies: Physical	1.9	0.7	2.6
Price	2.9	1.1	4.0
Total	<u>22.9</u>	<u>8.5</u>	<u>31.4</u>

Estimated

Disbursements:

	-----US\$ (000)-----			
	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>
Annual	3,600	4,800	5,200	1,400
Cumulative	3,600	8,400	13,600	15,000

Technical

Assistance:

Individual consultants will be retained to assist the Government in training Ministry of Agriculture personnel and in the administration and supervision of agricultural settlement.

Rate of Return:

The weighted average economic rate of return of the settlement and feeder road components of the project would be 17%.

Staff Project

Report:

Report No. 1205-JM, dated May 16, 1977.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO JAMAICA FOR A
FIRST RURAL DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed loan to Jamaica for the equivalent of US\$15 million to help finance a first rural development project. The loan would have a term of 17 years, including three-and-a-half years of grace, with interest at 8.2% per annum. 1/

PART I - THE ECONOMY

Introduction

2. An Economic Report entitled "Current Economic Position and Prospects of Jamaica" was distributed to the Executive Directors on March 22, 1976. Small updating missions visited Jamaica in August 1976, January 1977 and again in March 1977. The findings of these missions are incorporated in this report. Country data sheets are attached as Annex 1.

3. During the decade following independence in 1962, the Jamaican economy grew at a fairly rapid pace, averaging 5.7% per annum. Growth was spurred by major developments in tourism and in bauxite and alumina production. Tourist visitors increased from 200,000 in 1962 to 500,000 in 1972, while over the same period bauxite production expanded from 8 million tons to 13 million tons and the output of alumina rose from 650,000 to 2 million tons. Large private capital inflows from abroad underpinned investments in these sectors and these same capital inflows enabled Jamaica to maintain a sound foreign exchange reserve position despite increasing deficits on the current account balance of payments. The decade of the sixties was, therefore, a period of

1/ Jamaica's per capita income, calculated on the Bank Atlas basis, was estimated as US\$1,290 in 1975, thus placing it in the category of countries which under present policy would be extended loans by the Bank with a final maturity of 15 years, including three years of grace. However, recent developments have resulted in a substantial decline in Jamaica's per capita income measured in dollars. A major change in exchange rate policy (see para. 18) has resulted in an effective devaluation estimated at 18%. Aside from this indication that the 1975 figure was overstated because of an overvalued exchange rate, it is now estimated that, because of recent highly adverse changes in the economic situation, real per capita income in 1977 will be about 20% below the 1975 level. It is clear that Jamaica now falls in the US\$520 - 1,075 income category and thus should be accorded the terms recommended for the proposed loan.

rising incomes and rising expectations. However, the growth of investment during this period bypassed the agricultural sector, the traditional source of Jamaica's income and employment opportunities, agricultural production stagnated and there was increasing migration to urban areas. Moreover, the relatively capital-intensive nature of investments during this period did not permit a sufficient expansion of permanent urban employment opportunities despite continued high levels of emigration. Finally, the pattern of development tended to worsen the already extreme inequality of Jamaica's income distribution.

4. Two other results of the pattern of investment during this period were to prove significant for the future growth of the country. The first was an increase in the external dependence of the economy, both in terms of markets (especially bauxite/alumina and tourism) and sources of supply of consumption, intermediate and capital goods. The second was an increase in the degree of concentration of merchandise exports. Bauxite and alumina exports, which already accounted for over one-half of total exports in 1966, increased to more than 75% by 1974. Thus, by the early 1970s, Jamaica was suffering from serious unemployment and the social tensions generated by this and by worsening income distribution. In addition, the economy had become heavily dependent on external economic developments and on decisions made outside the country.

5. The Government which came to power in 1972 under the banner of democratic socialism was strongly committed to reducing the inequality in the distribution of income, alleviating unemployment and reducing the country's external dependence. It embarked upon a development program emphasizing greatly increased government ownership of and control over the country's productive resources and promised expanded popular participation in decision making. Economic diversification, employment and redistribution of income were set forth as priority goals, with economic growth considered as an important, but subsidiary, goal. Emphasis was to be given to increasing employment and income opportunities for the poorer segments of the population through expanded public investment in labor-absorbing sectors of the economy and to increased social benefits. Evolution of the Government's program has witnessed a considerable expansion of public ownership in the basic sectors of the economy, including significantly increased participation in the tourism and bauxite/alumina industries, both of which were largely foreign owned.

6. External factors have complicated implementation of the structural changes sought by the Government. The completion of a major investment cycle in tourism and mining resulted in a sharp drop in foreign capital inflows beginning in 1972. This was followed by the increase in the world price of petroleum in late 1973 (which raised Jamaica's petroleum import bill to US\$195 million in 1974 from US\$73 million in 1973) and by the world recession of 1974-75 which had serious repercussions on Jamaica's tourism and mining sector receipts. These events made balance of payments and fiscal management increasingly difficult as imports continued to grow rapidly and special employment programs were expanded to alleviate the most serious effects of the growing level of unemployment. Balance of payments and demand management measures were

introduced in 1972 and again in 1973, including a small devaluation of the Jamaica dollar, the imposition of import controls and measures to limit the expansion of credit to the private sector. These measures proved to be inadequate to stem the weakening balance of payments performance. The Government was able to counteract the abrupt rise in the price of petroleum in 1974 by increased bauxite taxes and royalties. This yielded an additional US\$150 million in foreign exchange receipts. ^{1/} While this was temporarily sufficient to offset the rise in oil prices, and the higher prices for other imports, it did not resolve the underlying weaknesses in the country's economy.

7. Imports continued to rise at a rapid pace in 1975 (20% in nominal terms) reflecting large wage and salary increases in the private sector and an expansionary fiscal policy designed to ameliorate the increasingly serious unemployment problems. At the same time, direct foreign investment declined further in 1975 and private capital remittances increased, reflecting growing concern about the political and economic future of the country on the part of some members of the propertied classes. Jamaica was rescued from a potentially critical balance of payments situation in 1975 by a near doubling of receipts from sugar exports due to a sharp rise in international sugar prices and by an unprecedented level of external medium- and long-term borrowing by the public sector. However, despite gross external public borrowing totalling US\$247 million, Jamaica's foreign exchange reserves fell by US\$81 million in 1975.

8. The balance of payments situation reached crisis proportions in 1976. Serious labor problems in the mining industry together with soft world demand for aluminum substantially reduced the production and export of bauxite and alumina. Thus, despite sharply higher prices for both these products, total export receipts of the industry fell by about 12%. Receipts from sugar exports in 1976 were nearly halved due to much lower international prices for sugar. Moreover, Jamaica did not benefit from the recovery of tourism evident in the rest of the Caribbean during the year. Thus, despite strict controls which resulted in a 17% drop in imports, the current account balance deteriorated further in 1976, with the deficit equal to nearly US\$300 million.

9. Adverse developments on capital account made the balance of payments situation even more difficult. Foreign commercial bank lending to Jamaica practically ceased and capital flight accelerated sharply. Direct private investment inflows were negative for the third consecutive year. A large part of the

^{1/} The Government's action to increase bauxite taxes and royalties followed the failure to reach agreement with the companies on a renegotiation of the tax clauses in the original company contracts. The companies objected to the tax increase and three US-owned companies requested arbitration before the International Centre for Settlement of Investment Disputes (ICSID). Recent agreements between two of these companies and the Jamaican Government have resulted in the discontinuance of the pending ICSID arbitration proceeding. The third proceeding is still pending; however, negotiations between the company and the Government have been completed and it is expected that the proceedings before ICSID will be discontinued in the near future. A fourth company instituted proceedings in the Jamaican courts.

credits received by the public sector were government-to-government loans from Jamaica's CARICOM partners (Trinidad and Tobago, Barbados and Guyana) and Venezuela). The IMF extended a total of US\$64 million in credits to Jamaica under its oil and compensatory facilities. Despite these credits, the net inflow on capital accounts was only US\$97 million for the year, compared with US\$230 million in 1975. As a result, foreign exchange reserves declined dramatically. By mid-December, the country had lost US\$270 million in reserves; gross official reserves had fallen below US\$30 million and the Central Bank of Jamaica was forced to close the foreign exchange markets. The markets were partially reopened in January to permit payment for imports already landed in Jamaica or in transit and for government and government-guaranteed debt-service payments.

10. The balance of payments difficulties have been accompanied by, and in part reflect, problems of budgetary management. Growth in current expenditures over the past few years has consistently outstripped that of current revenues as a result of Government attempts to maintain employment and income levels. Subsidies to recently acquired public enterprises and to several other public entities, including the sugar and banana industries and the public transport system, also helped contribute to the rapid growth in expenditures. The consequent reduction in public sector savings significantly increased the difficulty of financing the growth in public sector capital expenditures.

11. Measures were introduced in February 1976 in an attempt to improve the fiscal situation, but these proved to be inadequate. Bauxite levy receipts failed to increase due to reduced demand for bauxite and general tax revenues were adversely affected by the deepening internal recession and the decline in imports. Moreover, continued rapid growth in unemployment caused the Government to adopt more expansionary fiscal and credit policies around mid-year. As a consequence, the overall deficit of the Central Government for fiscal year 1976/77 was about 14% of GDP. With the sharp decline in lending by foreign commercial banks, an increasing proportion of the deficit had to be financed domestically. Since domestic liquidity was shrinking in large measure because of heavy capital flight, the Bank of Jamaica had to finance nearly two-thirds of the overall deficit, equivalent to about 9% of GDP.

12. While prior to 1973 Jamaica had enjoyed a history of relatively stable prices with inflation averaging no more than 5-6% annually, the problem of inflation in Jamaica has assumed major importance in recent years. In 1973, prices began to increase rapidly, with an increase of around 18% that year, followed by 27.3% in 1974. The rate of increase began to slow in mid-1974 and the increase in 1975 was about 17%. Price inflation subsided in 1976 with the cost of living index rising by less than 10%. The acceleration of inflation was triggered initially by expansionary fiscal and monetary policies as well as by a small devaluation in January 1973 and thereafter by external factors which became increasingly important following the oil price increase late in 1973. Inflation was also propelled by large wage adjustments. Between 1973 and 1975, the industrial wage index rose at an average annual rate of 46%, considerably more than retail prices and far above gains in productivity. In February 1976, the Government established a system of wage guidelines as part of a stabilization program. However, major exceptions to these guidelines were

permitted and enforcement measures and mechanisms proved inadequate. The reduced rate of inflation in 1976 was probably due to a combination of factors including price controls on essential consumer goods, deceleration of international inflation and the monetary effects of capital flight.

13. Real GDP is estimated to have fallen by about 6% in 1976, following a drop in excess of 2% in 1975. Unemployment has increased sharply, especially in the tourism sector, rising well above the 11% rate that had persisted over the past few years. Amelioration of the chronic problem of high unemployment is paramount among the development objectives of Jamaica and an increasing proportion of government expenditures is being diverted toward temporary work programs for the unemployed. Since a lower rate of net emigration is likely over the next several years, the task of expanding employment opportunities has become all the more urgent.

14. Several economic measures were adopted in January 1977 to deal with the economic crisis. These included sharp reductions in import quotas and extremely tight controls over all foreign payments, increases in taxes, a six-month moratorium on wage increases, and a freeze on prices of essential goods. Planning for an emergency program to increase production, especially in agriculture, manufacturing and construction, was begun. The Government's immediate objective was to relieve balance of payments difficulties by restricting imports through a quota/licensing system and by exercising controls over payments for services of various types. Priority for the use of scarce foreign exchange was to be given to government and government-guaranteed debt service, essential consumer goods (especially food) and fuel imports, and to imports of raw materials for high value-added and export-intensive industries, in that order. Overall demand management policies were designed to minimize the adverse effects on employment and to place the greatest burden of sacrifice on those most able to pay. Thus, tax increases, wage and price restraints and import controls were all focussed most heavily on the middle- and high-income segments of the population. Budgetary operations were to remain expansionary in the hope of preventing further increases in unemployment and avoiding any significant retrenchment in the Government's move toward democratic socialism. It was hoped that the domestic production of goods and services could be increased quickly to prevent excessive shortages and inflationary pressures from arising. The intention to nationalize selected private sector enterprises, announced at the same time, was designed to give the Government greater control over the direction of credit and the distribution of essential imports and to assure the supply of needed inputs for the vital housing program.

15. Projections of the balance of payments indicate that the availability of foreign exchange for imports will be extremely limited this year in the absence of additional foreign borrowing. Although export proceeds, including the bauxite levy, are expected to increase due to recovery of world aluminum markets, declines in both tourism receipts and capital inflows will more than offset these increases. Since payments have been delayed on private unguaranteed debt from the beginning of the year, the prospects of Jamaica borrowing in international markets are at the moment slight. Imports were

therefore budgeted at US\$660 million for 1977, 30% below the 1976 level and over 40% below that of 1975. A large part of this reduction was expected to come out of nonessential consumer goods imports. Nevertheless, the near-term implications for domestic production and employment are severe.

16. By early April 1977 it had become obvious that the projected level of imports was not sustainable. Import licenses valued at over 70% of the total import quota for the year had been issued during the first quarter, largely to clear goods already received in Jamaica or in transit when the controls were announced. Shortages of imported goods were beginning to force the closure of firms and layoffs of workers were becoming increasingly frequent. At the same time, an analysis of the private debt indicated that service payment obligations in 1977 would reach nearly five times earlier government estimates.

17. Moreover, preliminary drafts of the emergency production plan made it clear that rapid expansion of output could not be counted on to alleviate shortages and inflationary pressures over the short term. In the agricultural sector, which is being given highest priority, prospects for quick increases in output are not promising, as the countryside is still plagued by a drought which has affected the island for the past three years. Short-term supply response of the manufacturing sector appears to be constrained by a lack of entrepreneurial capacity and a lack of confidence on the part of investors. The construction sector seems to offer the best hope for rapid increases in production and employment, and at a relatively low import component. While a sizable housing program could be mobilized fairly rapidly and would help alleviate the unemployment problem, it would require a considerable amount of investment by the Government.

18. The certainty of drastic curtailment of output and employment during the rest of the year caused the Government to take further actions to relieve the import constraint. On April 22, a dual exchange rate system was established, with a new "special" rate of J\$1.25 = US\$1 to function alongside the old "official" rate of J\$0.909 = US\$1. In addition, the Government announced that budgetary financing by the Bank of Jamaica for FY77/78 would be limited to J\$250 million (compared with J\$272 million in FY76/77) and that prices and wages would continue under restraint after the current prices and wages freeze ends on June 30.

19. The new "special" exchange rate represents a devaluation of 37.5% from the old rate. All foreign exchange transactions of the Government and the bauxite/alumina industry; imports of essential foods, medicines and pharmaceutical products, petroleum and fertilizer imports; and certain basic raw material imports are to be processed at the old exchange rate. All other purchases and sales of foreign exchange are subject to the devalued rate. In view of the expected mix of transactions in the two markets, the effective devaluation is estimated by IMF staff on a preliminary basis at only 18%. While this adjustment does not fully correct for the previous overvaluation of the Jamaican dollar, it is intended to protect the purchasing power of the lower income segment of the population from excessive increases in the prices of basic necessities. At the same time, it increases the international

competitiveness of Jamaican goods and services (other than bauxite and alumina), including tourism and manufactured goods. In addition, the Government's budget will benefit since a large part of the subsidies to the sugar, banana and tourism industries have been eliminated.

20. The Government's fiscal policy for 1977 remains a matter of concern. Largely because of the erosion of the tax base which relies heavily on import and corporate profit taxes, the overall budget deficit for the fiscal year beginning April 1, 1977 is expected to exceed the 14% of GDP level estimated for fiscal 1976/77, unless additional revenue measures are taken. If the Government is successful in obtaining the US\$220 million in external credits it is seeking, the unfinanced gap would fall to about US\$275 million which would have to come from the Bank of Jamaica or from additional revenue measures. In his speech on April 22, the Prime Minister stated that Bank of Jamaica financing of the deficit would be limited to J\$250 million (US\$275 million) approximately equal to the unfinanced gap expected under the above assumptions. The combination of a massive public sector deficit financed largely by the Bank of Jamaica and a sharp reduction in imports will probably result in strong inflationary pressures once again.

21. Expenditure estimates presented to Parliament on April 29 emphasize the maintenance of permanent public employment and continuation of the special employment and income supplement programs. Expenditures will continue for projects supported by external lending agencies and some quasi-governmental and certain private sector entities (e.g., Sugar Industry Authority, Banana Board, Transport Board, Hotel Corporation, Air Jamaica) will continue to receive subsidies, but at a reduced level. Projects such as the major expansion in oil refining and new bauxite mining and alumina production are undergoing further review in light of the current crisis and may be eliminated. Substantial increases are provided in connection with the emergency production plan for projects concerned with the production of foods for domestic consumption, basic consumer goods and housing.

22. The maintenance of internal price stability is a critical element of the current adjustment process in Jamaica. In the absence of an incomes policy to restrain wage and price increases after the present wage/price freeze ends on June 30, the benefits of increased international competitiveness of Jamaican products achieved through devaluation would have been quickly eroded. In recognition of this threat, the Government has stated unequivocally that wage/price guidelines would be established and made effective as of July 1 to restrain such wage increases. The exact formulas have yet to be worked out, but the Government's commitment to an effective incomes policy is clear.

23. The devaluation and related measures announced on April 22 are a positive step toward building a firm basis for future viability of the economy. The major uncertainties remaining are the magnitude of the inflationary impact of the budget deficit, the effectiveness of the wage and price restraint to be instituted after June 30 and the ability to mobilize additional external resources. Unless further action is taken, it is likely that Jamaica will

experience additional falling output and income, mounting inflationary pressures, growing scarcities and a continuing exodus of professional and commercial talent. The needed domestic policy measures would help restore confidence in the country's economic management, thereby encouraging additional capital inflows and assisting the rescheduling of at least part of the large debt repayments due over the next couple of years. A priority short-term objective is to relieve the present restraint on imports sufficiently to limit the decline in output and the related increase in unemployment.

24. The difficulties remaining and the magnitude of the adjustments still required are substantial. The managerial and administrative demands of Jamaica's policy of emphasizing direct controls could well exceed the bureaucracy's capacity, and, in fact, there are already signs that difficulties along these lines are being encountered. Although there are still obvious shortcomings in the Government's economic program, the economic team is aware of them and understands the seriousness of the situation. It appears to be receptive to suggestions and willing to consider alternatives. It has entered into detailed discussions with IMF about further economic policy measures and the possibility of a Standby Agreement. A Fund mission visited Jamaica last month and it is anticipated that further negotiations will be held in Jamaica later this month.

25. There are several additional policy measures that Jamaica could take to stabilize the economy and consolidate a sound basis for economic growth. These include: (a) increase public sector revenues, shifting away from import taxes as the major revenue source; (b) implement a stringent wages policy (to take effect when the present wage freeze expires on July 1) coupled with some form of forced savings; (c) introduce policies which could promote export growth and provide more effective rationing of imports. The production program emphasizing import substitution and export promotion should, of course, be continued. Adoption of these policies should enable Jamaica to attract additional external capital inflows and contain the impending drastic curtailment in imports. It should be pointed out that even with the adoption of these policies, the Jamaican economy will be subject to serious foreign exchange constraints for the foreseeable future. Local cost financing is justified on the basis of estimates that capital inflows into Jamaica, if restricted to foreign exchange components of projects, would not be sufficient to meet the foreign exchange requirements of the total public investment program and estimated debt servicing liabilities.

26. Despite the critical balance of payments situation of recent months, the Government has not defaulted on the servicing of the public or public-guaranteed debt, and the Government's foreign exchange budget accords the highest priority to the servicing of this debt. Although there have been delays in repaying unguaranteed private sector debts, many of these obligations belong to a category of debt that would under normal circumstances have been rolled over.

27. Jamaica has the resources to enable it to both sustain positive rates of growth of per capita income and achieve a wider distribution of the benefits of growth once the domestic economy has been stabilized and the country's international competitiveness has been restored. The country's external debt problems appear manageable. The estimated total debt outstanding (disbursed only) in mid-March amounted to approximately US\$1.3 billion. (Excluded from this figure is an estimated US\$220 million in normally

revolving outstanding trade credits.) Of this, about US\$440 million was direct public debt, US\$360 million was government guaranteed and the remaining US\$500 million was private nonguaranteed debt. In relation to present foreign exchange earnings, the debt service ratio on the public and publicly guaranteed debt is estimated at about 16% for 1977. However, in view of the current abnormally low level of exports and the low level of new debt assumptions, it is anticipated that the debt service ratio will decline gradually over the next several years.

28. Jamaica's longer term balance of payments prospects at present appear only fair, but bauxite, sugar and tourism give the country a substantial export base on which to build. Demand for these products tend to be cyclical and the industries have structural problems, some of which are amenable to domestic policy and others which are not. However, Jamaica's factor endowment does not limit the sources of its future growth to these products. With appropriate policies, prospects for positive production responses in agriculture and manufacturing, both for the domestic market (as import substitutes) and for export, are good. Thus, while the country is now experiencing grave financial difficulties, with the adoption of additional positive measures along the lines recently enacted, there do not seem to be insurmountable obstacles to reestablishing balance of payments viability. Jamaica can thus be regarded as creditworthy at this time for additional Bank lending in the amount proposed.

PART II - BANK GROUP OPERATIONS IN JAMAICA

29. To date the Bank has made 14 loans in Jamaica totalling about US\$138 million after cancellations. Of this amount about US\$81.5 million (59%) has been for infrastructure investments in transportation, electric power, water supply and sewerage; the remainder has gone into education (17%), sites and services (11%), agriculture (7%) and population (6%). The proposed loan would be the third loan in the agricultural sector. The preceding two loans in the agricultural sector have been for agricultural credit. There have so far been two IFC investments in Jamaica; a loan in 1961 to a pre-mix concrete company and an equity/loan investment in 1968 in a hotel project. Annex II contains a summary statement of Bank loans and IFC investments as of March 31, 1977 and notes on the execution of projects in Jamaica.

Future Bank Lending

30. Bank lending in Jamaica is aimed essentially at providing continued transfers of long-term external capital to help finance the capital imports associated with the country's public sector investment program. The Bank program has been developed taking into account the role of other external lending agencies--IDB, CIDA, ODM, USAID and the Caribbean Development Bank (CDB)--and the Government's development strategy. Bank lending supports Government programs conducive to increasing production and employment; achieving a wider distribution of the benefits of growth; and improving the country's social and economic infrastructure where inadequate facilities are presently constraining development. It is also an important objective of the Bank lending

program to strengthen the public sector institutions associated with Bank-financed projects by supporting policies designed to improve the quality of management, their operating procedures and finances.

31. After a lull in Bank lending in 1972/73--due largely to institutional constraints and slow project preparation--the pace of Bank operations picked up in FY74 and 75, with an increased emphasis on projects in the social sectors. Slow project preparation and unsettled economic conditions have contributed to a renewed lull in Bank lending operations. The most recent Bank loan, for a Second Population Project (Loan No. 1284), was approved by the Executive Directors on June 8, 1976. The Bank's share of external public debt outstanding and disbursed was about 8% in 1976 and its share of external public debt service was about 6% in 1976.

32. In line with the Government's development strategy, the proposed project as well as future Bank projects will place increasing emphasis on the agricultural sector to support efforts to promote exports, stimulate import substitution, strengthen the balance of payments, increase employment and raise living standards in the rural areas. It is expected that the revitalization of the agricultural sector will also help check the population drift from the countryside into the cities. The Bank has already made two loans to the Jamaica Development Bank (JDB) for relending to the agricultural sector. A third agricultural credit project for the JDB to help meet the financing requirements for commercial farming and agro-industrial development is under consideration. A possible sugar rehabilitation project is in preparation, which will include the rehabilitation of factory milling equipment.

33. In accordance with the Government's increased emphasis on the productive sectors and the development of small-scale industry, a project to assist small-scale enterprise is contemplated. The project is likely to include credit to entrepreneurs, technical assistance and institutional development.

34. In infrastructure, a second electric power project for expansion of the Jamaica Public Service Company's (JPSC's) transmission and distribution facilities has been appraised. Important objectives of the project would also be to improve the reliability of the JPSC system and to strengthen the company's finances and operations.

35. In the social sectors, the Bank has been active in financing two education projects, two population projects (the second of which contains an important nutrition element) and a sites and services project. The Bank expects to continue to support programs to improve social and physical infrastructure in Kingston and other urban areas. Looking further ahead, it is expected that a third education project will be prepared for possible Bank financing. The possible scope and content of the project, however, has not yet been defined.

36. As indicated in Part I, Jamaica faces some critical economic problems and we will be closely watching the direction of its economic policies in the months to come. Presentation of further lending operations to the Executive Directors will only be made after economic policies have been adopted which would strengthen Jamaica's creditworthiness.

PART III - SECTORAL BACKGROUND

A. The Rural Sector

Socio-Economic Conditions

37. The rural sector in Jamaica embraces about 60% of the island's two million people. It contributes approximately 15% to the GNP, over 50% to national employment and about 16% to export earnings.

38. The standard of living in the rural areas is substantially lower than in urban areas, the average per capita income of the rural population (estimated at US\$230) being only a tenth of the average urban income (about US\$2,440). About 80% of the rural population have an income less than one-third of the national average (relative poverty) and at least a third of the rural population earns less than the income considered necessary to provide minimum calorie requirements (absolute poverty). Housing conditions, particularly on old sugar and banana estates, are grossly substandard. The average occupancy rate is 1.7 persons per room. Only about 10% of the rural dwellings have electrical connections and approximately 3% have piped water. Almost 50% of rural homes depend on public standpipes for their water supply and close to 10% lack sewage disposal facilities. With respect to transportation facilities, the rural areas are interlaced with a relatively dense network of roads (1.4 miles of road per square mile). However, most of the road network consists of unengineered earth or gravel tracks which often become impassable during the wet season. This not only results in high costs for vehicle operation and road maintenance, but it impedes regular freight and passenger traffic. Social services are also poor. The number of persons per physician in the rural areas is twice that for the urban areas and infant mortality and the incidence of malnutrition among children under five years of age is significantly higher in the rural areas. Access to primary and vocational schools in rural areas is limited; nearly 20% of the rural population have not received any formal schooling and fewer than 10% reach the secondary level.

39. Within the rural sector, agriculture is the dominant activity, providing 60% of rural employment and about 50% of rural production. Its contribution to the national economy is highlighted by providing 30% of total employment, 7% of GNP and 13% of export receipts. However, because of rising internal demand for agricultural products and a poor performance of export crop production Jamaica has become a net food importer since the mid-1960s.

B. The Agricultural Sector

40. Resources and Land Use. Out of a total surface area of 2.7 million acres, about 1.5 million acres in Jamaica is designated as land in farms, the remainder being mostly forest. A third of the agricultural land in farms is

either unused or is of very limited agricultural potential. In effect Jamaican agriculture is thus based on about one million acres of land. Of this, only about 25% is flat to undulating, the remainder being very hilly and requiring good conservation practices if it is to be utilized intensively. There is ample rainfall (about 2,000 mm annually on average) but its distribution is uneven and partial droughts are frequent. Of the million acres of agricultural land about 60% is utilized for crops and 40% for pasture, half of it unimproved grassland. The largest proportion of cropland is under sugarcane (32%), followed by coconut (19%), citrus, coffee, cocoa and other tree crops (20%) and bananas (16%). The remainder (13%) is used for various food crops (legumes, yams, pineapples and vegetables) and tobacco. The national herd comprises about 280,000 head of cattle, 200,000 each of sheep, goats and pigs, and 4 million poultry.

41. Structure. Jamaican agriculture has traditionally consisted of two sectors, namely: (a) the export-oriented, large-scale plantation sector engaged in the production of cash crops and beef cattle, and (b) small-scale farmers, producing food crops and livestock largely for domestic consumption. In recent years economic, social and political factors have been changing this dualistic pattern into a more diversified structure. Thus, the importance of the plantation sector has declined, while, at the same time, a small- to medium-sized, more capital-intensive commercial farm sector has emerged. Parallel to this, many of the smaller holdings are no longer farmed full time and serve primarily as rural dwellings.

42. Farm Size. The agricultural land is very unevenly distributed among 192,000 holdings. About 15% of the land is in 150,000 farms of less than 5 acres, 22% in 37,000 farms of 5 to 25 acres, 3% in 1,755 farms of 25 to 50 acres, 5% in 1,815 farms of 50 to 100 acres, 13% in 800 farms of 100 to 500 acres, and 42% in 630 farms of 500 acres and above. Two-thirds of the farms over 500 acres are owned by Government and the bauxite companies. The skewed distribution of land, and considerable underutilization of resources that has resulted, has been a major impediment to the development of agriculture and the rural areas. In recent years Government has, however, distributed sizable tracts to about 20,000 smallholders and landless laborers under its Project Land Lease (PLL). However, this program has not yet resulted in much increased agricultural production, and is hampered by administrative difficulties, the lack of good support services and adequate physical infrastructure in the settlement areas concerned.

43. Production. Traditionally, Jamaica's agriculture has been export oriented, with sugarcane and bananas being the most important crops. In recent years, however, agricultural exports have declined considerably, although this has been compensated for to some extent by increasing production of crops for the domestic market. Sugar output has declined from a peak of 500,000 tons in 1966 to 360,000 tons in 1975 owing to a number of complex problems. Total banana production for 1972 and 1975 is estimated to have been 275,000 and 250,000 tons, respectively, but exports declined sharply from a peak of 127,000 tons in 1972 to 70,000 tons in 1975, partly because an increasing share was syphoned off for domestic consumption. Similarly exports of fresh citrus products decreased, though total production has increased slightly.

44. In spite of the potential productivity of its tropical pastures, Jamaica imports 80% of its milk and 40% of its meat. Jamaica's beef production capability is limited, mostly because of beef cattle's relatively low return per acre and the lack of suitable processing and distribution facilities. An increasing proportion of Jamaica's requirement for meat is being met by an efficient broiler industry based on imported feed mostly in the hands of five companies who deal with about 300 contracted farmers. Layers are kept in small commercial flocks. Dairies are concentrated mainly in the eastern part of the island, and marketing outlets in the western portion are poor although a new plant is being built in Montpelier. Lack of refrigeration and pasteurization facilities results in large sales of raw and condensed milk.

45. Administration. Numerous Government agencies are involved in the agricultural sector and this poses complications. The Ministry of Agriculture (MOA) has principal responsibility, but a number of other government institutions control important subsectors. Marketing is under the responsibility of the Ministry of Commerce and Trade and the Commodity Marketing Boards, credit is largely under the Ministry of Finance, and irrigation is under the Ministry of Public Utilities and the Ministry of Mining and Natural Resources. A further complication is that the MOA is organized along commodity and specific program lines, with most of its qualified staff assigned to offices in Kingston. At the local level, 13 semi-autonomous Land Authorities - relics of the former Ministry of Rural Land Development and operated under the jurisdiction of locally elected officials - are responsible for agricultural extension and for certain regulatory functions. This fragmented administrative structure has contributed greatly to the unsatisfactory performance of the industry. In addition to ineffectively using human and financial resources, this structure has made it impossible for Government to formulate and implement consistent agricultural policies and impossible to provide effective support services to the agricultural sector.

46. Credit. The main sources of institutional credit for agriculture are the commercial banks, the Jamaica Development Bank (JDB), the Agricultural Credit Board (ACB) with its affiliated People Cooperative Banks (PCBs), and the Commodity Marketing Boards. These agencies do not coordinate the supply of credit. Most Government-sponsored schemes carry negative interest rates and are beset with recovery difficulties. Sufficient credit for small farmers is available from the Self-Supporting Farmers Development Programme (SSFD) which is partially financed by the Inter-American Development Bank (IDB) and from the ACB. The only source of general development credit for commercial farmers is the JDB.

47. Marketing. Export crops are marketed by various Commodity Marketing Boards which work independently of each other and periodically need sizable Government subsidies to cover their financial losses. Most of the domestic food crop marketing is handled in a relatively effective but costly manner by small traders (higglers) who engage in collecting and wholesaling as well as retailing. About 20% of the domestic marketing of food crops is performed by the Agricultural Marketing Corporation (AMC), which also functions as Government's price stabilizing and support agency. It buys produce at 207 buying

stations throughout the country, offers guaranteed minimum prices for 32 domestic food crops and as a result is often forced to sell it at heavy financial losses. The most important marketing facility in the rural areas are the parish markets. They serve both as market outlets for the local producers and higglers as well as supply points for consumers in rural centers and for wholesalers servicing urban centers. These existing markets, however, have proven to be inadequate for handling the increased output of domestic food crops. Another limitation is the poor rural road system which denies the small producer in remote locations an economic access to the market.

Development Issues and Government Policies

48. The performance of the agricultural sector has not been commensurate with its physical potential. Over the last decade, production has remained stagnant causing a decline in agricultural output and food production per capita. This has been particularly evident for export crops, which have been decreasing at an annual rate of 5% in constant prices. Although food crop production has increased in the last few years, it has not kept pace with domestic demand. As a result, food imports have increased at an annual rate of 5% in constant prices to reach J\$120 million in 1974. The unsatisfactory performance of the agricultural sector may be broadly attributed to:

- (a) inertia regarding the application of improved farm practices and failure to intensify land use and cropping patterns;
- (b) past governmental neglect of the agricultural sector;
- (c) the reluctance of the plantation sector to adjust to changing socio-economic conditions;
- (d) highly skewed land distribution;
- (e) the lack of adequate agricultural support services, especially extension and applied research, and particularly for small- and medium-sized farmers;
- (f) deficient infrastructure and social services in the rural areas;
- (g) deficient marketing arrangements for both food and some export crops; and
- (h) interrelated problems of low capital formation and the private sector's reluctance to invest in agriculture.

49. Government is aware of the problems outlined, and, with Bank assistance, undertook in 1973, an in-depth agricultural sector study, which resulted in a Cabinet-approved policy for improving agricultural production, rural infrastructure and enhancing rural living conditions. Based on the recommendations of this study, the Government has initiated an agricultural development program which has the following objectives:

- (a) intensification of land utilization by introducing a progressive land tax and by reactivating the Land Development and Utilization Commission (LDUC), which requires owners of idle or underutilized holdings in excess of 50 acres to either intensify land use, or to rent or sell the property to the Government for subsequent distribution to landless people or small holders on a lease basis (Project Land Lease);
- (b) increasing credit availability through programs administered by ACB and JDB;
- (c) introduction of improved farm inputs and practices through subsidies for better planting materials, fertilizers, and soil conservation;
- (d) encouragement of production of sugar, bananas, and citrus by subsidies and of food crop production by provisions of subsidized marketing services through AMC and guaranteed minimum prices;
- (e) expansion of food crop and livestock production on state-run Food Farms and through the Government-owned Agricultural Development Corporation (ADC);
- (f) improvement in the effectiveness of MOA by centralizing its policy functions and decentralizing its program implementation and service functions; and
- (g) improvement of rural infrastructure.

50. This program is indicative of the Government's commitment to rural development but its ultimate success will depend on the ability of the public sector to effectively implement the proposed schemes; provide adequate technical services, especially for the development of the small-farm sector; and maintain a favorable investment climate to facilitate the expansion of the medium-sized commercial farm sector.

PART IV - THE PROJECT

Project Background, Objectives and Concept

51. The proposed project originated from a comprehensive agricultural sector study undertaken by Government in 1973 with Bank assistance. It would implement some of the major policy recommendations which emerged from this study. The project was identified and prepared by MOA and related Jamaican institutions. Preparation assistance has been provided by several FAO/CP and Bank missions. The project was appraised by a Bank mission in December 1975 and loan negotiations were held in Washington in December 1976. The economic uncertainties over the last year and the time required for their assessment, contributed to delays in project processing.

52. The proposed project would have three principal components: the reorganization of MOA; the settlement of 1,400 farm families; and the improvement of rural feeder roads, water supply systems, parish markets and sanitary facilities. It would complement Government's rural development policy by increasing agricultural production and income and improving the quality of life, and thereby reduce income disparities and curb urban migration.

53. Because of existing financial and administrative constraints, the project investments would concentrate on the Western Region, which has especially pronounced poverty problems but also has immediate development possibilities. After successful completion of the proposed project, Government intends to initiate similar projects for the remainder of Jamaica. The project in itself does not provide a fully balanced and integrated investment package, but concentrates on removing key constraints to rural development not covered by other Government programs presently under execution or planned. A considerable portion of project investment would be for building institutions and productive structures. This is because the basic problems of rural development in Jamaica are institutional and because of the complementary character of the project. The settlement component, which accounts for almost half of the project investment, is designed to create a technically and financially viable farm-size structure and to reestablish confidence and interest in small-scale farming. In order to meet these objectives the component would provide for (a) farms of a size capable of generating full employment for the farmers family, (b) a farmers income which meets both his short-term minimum needs and his long-term income expectations, (c) essential social and economic infrastructure in the settlement areas to attract qualified settlers on a lasting base and to allow an unimpeded development of production and marketing.

Project Area

54. Except for the reorganization of the MOA, the proposed project investments would be confined to the Western Region (frequently referred to as Cornwall County), which includes the parishes of Trelawny, St. James, Hanover, Westmoreland and St. Elizabeth. The region comprises an area of about one million acres or one-third of the total area of Jamaica. It has almost half a million inhabitants or about one quarter of the island's total population. Eighty-six percent of them are classified as rural and about half of these find employment in agriculture. The urban population lives in a few towns, of which Montego Bay, a major tourist center, and Savanna-la-Mar are the largest. They depend largely on employment in the service, construction and mining sectors. Living conditions in the project area are similar, by and large, to those in the rural area of the rest of Jamaica, except that the poverty is more pronounced. Thus, unemployment is estimated to be well over 25% and only about a third of the male population over 14 years of age is fully employed. The average annual per capita income is estimated to be approximately US\$175 but close to 50% of the population are thought to have annual incomes of less than US\$100. Malnutrition is widespread and social services are meager. As a result, there is a substantial migration, particularly of the able-bodied, to the metropolitan area of Kingston.

55. Much of the project area is hilly to mountainous and only one-third of it (330,000 acres) is actually under cultivation. Land distribution is highly skewed. Large farms generally concentrate on export crops and cattle while small ones produce mostly food crops and small livestock for domestic consumption. Because of the predominance of sugarcane and cattle, the region produces about 40% of Jamaica's sugar and about 43% of its beef.

Project Components

56. The first component of the proposed project would facilitate implementing the reorganization of MOA as proposed in the "Review of Reorganization of the Ministry of Agriculture" by the Ministry of Public Services. It contemplates a reincorporation of most agricultural services under the direct jurisdiction of MOA, an internal restructuring of the Ministry along functional lines (as opposed to the presently existing project-oriented structure) and a decentralization and regionalization of the Ministry's technical services. The Government's formal approval of the reorganization plan would be a condition of loan effectiveness (Section 5.01(b) of the draft Loan Agreement). Project investment in support of this program would provide for:

- (a) additional facilities required for regionalization, including accommodation for two new regional offices, 30 additional local offices and 40 staff houses in the remoter areas;
- (b) 30 four-wheel drive vehicles to be used in areas with difficult access; and
- (c) an extensive training program for most of the Ministry's professional, technical and clerical staff. The Ministry would complete the details of the training program and submit the final program to the Bank within six months of the signing of the loan (Section 3.05(b) of the draft Loan Agreement).

57. The second project component would support Government's existing PLL, which aims at reducing widespread underutilization of agricultural land and rural unemployment by acquiring underutilized farms larger than 50 acres and then leasing the land for 49 years to farmers with inadequate land (PLL II) or to landless people (PLL III) so that they may reach a minimum annual net farm income of J\$2,000 after a development period of about 5 years. This component would include:

- (a) acquisition by the Government of about 4,000 acres for settlement purposes (in addition to 12,687 acres already purchased) within six months of loan signing (Section 3.12(b) of the draft Loan Agreement);
- (b) preparation of detailed physical plans for the development of the nine settlement areas included in the project. The plans not prepared by the time of loan signing would be completed within one year of loan signing (Section 3.05(a)i of the draft Loan Agreement);

- (c) construction of settlement infrastructure, including 10 miles of access roads to the settlement sites, 10 miles of village roads, and 40 miles of farm roads connecting the village sites with the farming areas. The Government would provide the necessary funds to maintain the roads constructed under the project (Section 3.01(b) of the draft Loan Agreement);
- (d) construction of 820 farmhouses in a program jointly carried out by the Ministry of Housing, MDA and local contractors. JDB would act as a collection agent for the mortgage payments made by the settlers (Section 3.08(b) of the draft Loan Agreement);
- (e) construction of potable water and electricity supply systems for the settlements. The Government would make appropriate arrangements with JPSC and the National Water Authority to provide a timely supply of electricity and water for the settlements (Section 3.06 of the draft Loan Agreement);
- (f) selection and settlement of 1,400 families with adequate farming qualifications; the adoption of satisfactory guidelines and operating policies for settlement including a land rent review mechanism would be a condition of loan effectiveness (Section 5.01(a) of the draft Loan Agreement). The annual land rent paid by settlers is at present 2% of the commercial price of land, which is below commercial rates. The proposed guidelines would provide a mechanism for a review of land rents paid by settlers after a five-year development period with a view to adjusting rents to a rate comparable to the then prevailing commercial rates and instituting adequate cost recovery;
- (g) provision of essential community facilities at the settlement sites to accommodate settlement administration and of marketing facilities for agricultural inputs and outputs. In addition, the Government would provide for essential social services (Section 3.07 of the draft Loan Agreement);
- (h) soil conservation and forestation measures for 1,400 acres to immediately provide each settler with a minimum of one acre of readily cultivable land; and
- (i) technical assistance from MOA to implement the settlement component through the provision of site managers and adequate supporting services in each settlement area (Section 3.05(a)ii of the draft Loan Agreement).

58. The settlers' credit requirements for farm and crop development (estimated at about US\$2.7 million) would be provided by JDB with funds from the existing Self-Supporting Farmers' Development Program financed partially by IDB. The Government would assure the availability of adequate credit funds (Section 3.08(a) of the draft Loan Agreement).

59. The third project component would assist the Government's program to improve the economic and social infrastructure of the Western Region. The component would include:

- (a) construction/reconstruction of 70 miles of rural feeder roads;
- (b) construction/rehabilitation of nine parish markets to accommodate 3,000 vendors present. Present user rates for the markets would be reviewed and adjusted to recover operation and maintenance costs, as well as capital expenditures, at an annual interest of 8% (Section 3.09(i) and 3.09(iii) of the draft Loan Agreement);
- (c) extension of 37 existing water supply systems and the construction of four new systems servicing a total of about 15,000 rural families. Prevailing user rates for water would be reviewed and adjusted to recover, to the extent practical, operation and maintenance costs and, to capital expenditures, taking into account the payment capacity and preparedness of the users to pay (Section 3.09(iii) of the draft Loan Agreement);
- (d) construction and installation of 6,000 waste disposal units in a program jointly undertaken by the Ministry of Public Health and Environmental Control, the Parish Councils and individual householders.

Costs, Financing and Disbursement

60. The total cost of the proposed project would be US\$31.4 million (J\$28.5 million) exclusive of interest during construction, but including physical and price contingencies. The estimated foreign exchange content would be US\$8.5 million (J\$7.7 million), or 27% of total project costs. The cost structure by major components would be as follows:

	<u>US\$ million</u>	<u>% of Total</u>
Support for Ministry of Agriculture	4.1	13
Agricultural settlement	15.7	50
Regional Infrastructure	<u>11.6</u>	<u>37</u>
Total	31.4	100

61. Project investment per beneficiary family would be about US\$20 for the reorganization of MOA, US\$120 for regional infrastructure and US\$6,000 for the settlement component. The investment per beneficiary family for the settlement component was calculated exclusive of land acquisition costs and using the Basic Exchange Rate. Computation of costs using the Special Exchange Rate would bring the investment cost per beneficiary family to about US\$5,000. The costs for the settlement component include land preparation, housing,

water and electricity supply, settlement planning and administration roads and community facilities. Although the settlement investment costs are relatively high, the planned investments are essential in view of the extensive infrastructure investments that must be made in areas that in the past have received little or no such investment. The proposed farm unit size (5 to 8 acres) and the proposed level of infrastructure investment are essential for creating farm-generating income capacity and living conditions sufficient to attract qualified settlers on a permanent basis.

62. The project would be financed by a government contribution of US\$16.4 million (J\$14.9 million) and a Bank loan of US\$15 million (J\$13.6 million). The Bank loan would thus finance 48% of total project cost and would cover the project's foreign exchange content of US\$8.5 million, plus US\$6.5 million of local cost. Local cost financing would absorb 43% of the Bank loan.

Organization and Management

63. Overall responsibility for the project would rest with MOA, which would coordinate and supervise implementation through the existing Interministerial Standing Committee for Land Reform and Rural Development, chaired by the Permanent Secretary of Agriculture. This committee is functioning satisfactorily at present. A special Project Coordinator, attached to the Office of the Permanent Secretary, would assist in coordinating and supervising project implementation. MOA would be responsible for its own reorganization, and for the implementation of the settlement component. The Ministry of Works would implement the feeder road component; the Ministry of Local Government, the market structures and water supply systems; and the Ministry of Public Health and Environmental Control, the Parish Councils and the Ministry of Local Government, the sewage disposal units. Other agencies, including JDB, the Ministry of Housing, AMC, the Ministry of Education, the Rural Electrification Program and JPSC, and the Social Development Commission would provide supplementary services for settlement development and would be represented on the Interministerial Standing Committee (The organization and management of the Project are described in Schedule 5 of the draft Loan Agreement).

Procurement and Disbursement

64. Items to be procured under the project include civil works, vehicles and services. Civil works, with a total estimated value of US\$22 million, including contingencies, are individually small (the value of the largest single contract would be about US\$0.4 million and the largest combination of contracts is expected to amount to no more than US\$0.8 million) and geographically dispersed, with construction extending to over three years; hence, they are unlikely to attract foreign bidders. Furthermore, the shortage of qualified local bidders, the desirability of labor-intensive construction methods and the hiring of small contractors located near the construction sites would limit the opportunity for local competitive bidding. For these reasons, smaller civil works with an individual or package value not exceeding US\$50,000 (constituting almost two-thirds of the civil works) would be procured on the basis of individually negotiated contracts or force account. The

remaining one-third would consist of those civil works with an individual or package value exceeding US\$50,000 and would include construction of regional offices, markets and parts of the water supply schemes and community facilities and about two-thirds of the feeder roads. These would be procured after local competitive bidding in accordance with local procedures satisfactory to the Bank and without excluding foreign bidders. Individual civil work contracts or packages of contracts exceeding a value of US\$250,000 and vehicles would be procured after international competitive bidding in accordance with the Bank's guidelines. Administrative services provided under the project are valued at US\$1.8 million and relate to the implementation of a training program for the staff of MOA and for the planning, design, administration and supervision of the settlement component. An estimated two-thirds of these services would be carried out under force account by MOA. The rest would be contracted in accordance with Bank guidelines for consulting services (procurement procedures are described in Schedule 4 of the draft Loan Agreement).

65. The proceeds of the Bank loan would be disbursed to cover 55% of total expenditures for civil works, training, physical planning, administration and supervision, and 100% of foreign expenditures for vehicles. Expenditures incurred for the physical planning of agricultural settlements and the construction of markets and feeder roads after July 31, 1976 would be eligible for retroactive financing up to a total of US\$1 million (paragraph 4 of Schedule 1 of the draft Loan Agreement). Disbursements are expected to extend over three-and-a-half years after loan signing.

Agricultural Production and Markets

66. The incremental agricultural production from the project would result from the expected improvement in the efficiency of agricultural services, especially extension services, throughout the country, and from the nine settlements. Agricultural output from the settlement areas, estimated on the basis of site-specific farm models, is expected to increase gradually from J\$0.3 million in the second project year to J\$6.9 million in year 15 in terms of end of 1975 farmgate prices. During the initial years, most of the production would be for the farmers' subsistence. However, as production rises, an increasing share of the farm output would be sold, probably reaching 85% of total production by full development. About 40% of the production would be export crops and the remainder, by and large, vegetables and fruit for the domestic market.

67. The value of the incremental production from the settlement schemes at full development would correspond to about 4% of national agricultural output in 1974. The corresponding percentage would be 5% and 8% for domestic food crops and export crops. The additional bananas, citrus and coffee production would be equivalent to about 5%, 7% and 17% of the respective national totals in 1974. The domestic and export markets would easily absorb the incremental production, and the existing marketing system, based largely on small private intermediaries, Commodity Marketing Boards and the Government's AMC, would be capable of handling the additional production.

Benefits and Risks

68. The reorganization of MOA would benefit the entire farming community in Jamaica in the form of better support services. The related investments would not be directly recovered but would be justified in economic terms if, as a result, the aggregate national agricultural output increased annually by one-quarter of 1%. This is considered a realistic expectation in light of the increased coverage and improved quality of services to farmers expected from the reorganization.

69. The direct beneficiaries of the settlement component would be the 1,400 families included in the program. They would receive full-time agricultural employment with very satisfactory income levels. Currently they are estimated to have an average family income of about J\$500. Based on settlement site specific farm models, the annual family income from farm operations is expected to reach an average of about J\$3,000 after five years at the end of 1975 prices and about J\$7,000 at full development after 15 years. If the present Government cash subsidy program for agricultural inputs (land development, planting materials and fertilizer) and for prices of outputs (banana and citrus) would be discontinued, the projected average family income after 5 years would drop to J\$2,000 and to J\$6,000 at full development. The un-weighted average financial rate of return is estimated to be 37%, varying between 29% and 45% according to settlement sites. Excluding input and price subsidies the average would be about 20%. Expected income levels and financial rates of returns are high and the proposed farm development would remain financially attractive and viable if key technical and financial parameters deviate from the basic assumption by a 20% to 25% margin. The direct economic benefits from the settlement component would consist of the incremental agricultural production, valued at J\$6.4 million at full development in economic terms at constant end of 1975 prices. The economic rate of return for the settlement component, which accounts for about 50% of project costs, relating all on-settlement investments except land to the incremental net benefits from the farm operations would be 19%. The economic viability of settlement would remain satisfactory if volume or prices of output and input would deviate by a 20% margin from basic assumptions. In addition to these quantifiable benefits, the implementation of the settlement component would provide for the establishment of suitable administrative procedures for settlement, which is the Government's principal approach to correct the socially and economically incompatible land distribution pattern. It would also help in establishing suitable soil conservation and erosion control measures. The relatively high investment cost per beneficiary in the proposed settlement component is a result of the need for the acquisition of land for providing essential infrastructural facilities in the settlement areas on one side and the necessity for establishing farms capable of generating an income sufficient to attract qualified persons to full-time farming on a permanent basis on the other. The investment cost per beneficiary is therefore justified as a least cost solution for meeting the objective of the settlement component.

70. The feeder road component, which accounts for about 15% of project costs, would directly benefit about 15,000 to 20,000 acres of agricultural land and approximately 5,000 farm families in the remoter areas by providing

reliable access for marketing and communications, thus increasing their economic potential and possibly reducing urban migration. The selection of feeder roads to be included in the project would follow a methodology which would assure that the economic rate of return for this investment would be no less than 10%. Assuming a 10% rate of return on the feeder roads, the weighted average rate of return on the feeder road and settlement components of the project would be 17%.

71. The market facilities constructed or rehabilitated under the project would strengthen the traditional, low-cost marketing system. They would mostly benefit small-scale producers and low-income consumers. The investment would be economically justified if there were a reduction of food losses due to spoilage in the order of 2% of throughput. Actual savings are expected to be in excess of 2%. Reduction in health hazards would be an additional benefit.

72. The extension and rehabilitation of 41 water supply systems and 6,000 waste disposal units would benefit about 17,000 rural families by improving their quality of life. Such facilities are also expected to reduce the incidence of water-borne diseases.

73. The project is bound to experience difficulties in the coordination of the various agencies involved, particularly as a major component is agricultural settlement. It will be essential to provide on a coordinated basis the supporting technical services, which in turn will depend largely on the timely and effective reorganization of MOA. Given, however, the Government's firm commitment to the proposed project, it is expected that the problems related to the reorganization of the Ministry and the coordination of project implementation will be satisfactorily resolved. The project's risks would therefore be acceptable.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

74. The draft Loan Agreement between Jamaica and the Bank, the Report of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement and the text of a draft resolution approving the proposed loan are being distributed to the Executive Directors separately.

75. Special conditions of the project are listed in Annex III, Section III. Additional conditions of effectiveness would be a formal approval by the Government of a plan for the reorganization of MOA and the adoption of guidelines for operating policies and procedures for the Agricultural Settlements, which would include a land rent review mechanism.

76. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

77. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachments

June 1, 1977

JAMAICA	TABLE 3A SOCIAL INDICATORS DATA SHEET					
	JAMAICA			REFERENCE COUNTRIES (1970)		
	1960	1970	MOST RECENT ESTIMATE	TRINIDAD AND TOBAGO	CYPRUS	ISRAEL ***
LAND AREA (THOU KMS) TOTAL 11.0 AGRIC. 4.8						
GNP PER CAPITA (US\$)	430.0	770.0	1200.0	1180.0	1040.0	2240.0
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR. MILLION)	1.6	1.9	2.0	1.0	0.6	3.0
POPULATION DENSITY PER SQUARE KM. PER SQ. KM. AGRICULTURAL LAND	147.0 330.0	170.0 384.0	186.0 418.0	200.0 708.0	69.0 121.0	143.0 230.0
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	37.0	38.5	32.2	32.5	24.2	25.5
CRUDE DEATH RATE (/THOU, AV)	10.7	8.6	7.1	7.1	7.4	6.4
INFANT MORTALITY RATE (/THOU)	51.0	32.2	26.3	34.4	29.4	22.9
LIFE EXPECTANCY AT BIRTH (YRS)	64.6	67.8	69.5	66.1	70.2	70.2
GROSS REPRODUCTION RATE	3.4	2.7	2.4	2.0	1.5	1.8
POPULATION GROWTH RATE (%)						
TOTAL	1.4 *	1.4 *	1.6 */a	2.1 *	1.0 *	3.4 /d
URBAN	..	6.2	..	3.1	1.9	3.9
URBAN POPULATION (% OF TOTAL)	23.4	37.1	..	24.1	39.1	62.1
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	41.2	45.9	42.1	41.2	31.8	33.3 /a
15 TO 64 YEARS	54.5	50.4	51.2	55.1	60.6	60.2 /a
65 YEARS AND OVER	4.3	3.7	6.7	3.7	7.6	6.5 /a
AGE DEPENDENCY RATIO	0.4	1.0	1.0	0.4	0.7	0.7
ECONOMIC DEPENDENCY RATIO	1.2	1.7	1.3	1.5	0.9/a	1.2 /a,b
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)	..	49.8	147.6	25.4	..	..
USFRS (% OF MARRIED WOMEN)	..	..	..	..	..	..
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSAND)	650.0**	600.0**	420.0**	350.0/a	265.0	1000.0 /a
LABOR FORCE IN AGRICULTURE (%)	36.0	33.0	29.2	22.0	36.0	8.6 /a
UNEMPLOYED (% OF LABOR FORCE)	..	17.5**	21.1**	12.5	1.1	3.8 /a
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF HOUSEHOLDS	30.2 /a	..	..	..	12.1 /b	13.4 /c
HIGHEST 20% OF HOUSEHOLDS	61.2 /a	..	..	..	39.1 /b	38.6 /c
LOWEST 20% OF HOUSEHOLDS	2.2 /a	..	..	..	7.9 /b	7.8 /c
LOWEST 40% OF HOUSEHOLDS	8.2 /a	..	..	..	19.6 /b	20.5 /c
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	74.6 /b	..	..	..	..	..
% OWNED BY SMALLEST 10% OWNERS	1.6 /b	..	..	..	..	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	..	2630.0	2580.0 /b	2330.0	1290.0	410.0 /e
POPULATION PER NURSING PERSON	1990.0/c	..	740.0	400.0	610.0	200.0 /e
POPULATION PER HOSPITAL BED	250.0/d	240.0	260.0	230.0	190.0	170.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)	91.0	103.0	114.0	97.0	99.0	116.0
PROTEIN (GRAMS PER DAY)	56.0	56.0	67.0	64.0	78.0	92.0
W/O WHICH ANIMAL AND PULSE	20.0 /b	29.0 /a	..	34.0 /c	33.0 /c	49.0
DEATH RATE (/THOU) AGES 1-4	6.5	4.2	4.6	1.8	..	..
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	118.0	101.0	106.0	110.0/d	82.0 /d	132.0
SECONDARY SCHOOL	10.0	24.0	32.0	40.0/d	57.0 /d	33.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	12.0	12.0	13.0	15.0	12.0	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	9.0	9.0	..	9.0	12.0 /d	45.0
ADULT LITERACY RATE (%)	..	82.0	66.0 /c	88.0	85.0	84.0
HOUSING						
PERSONS PER ROOM (URBAN)	1.6	..	..	1.7 /e	..	1.5 /f
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)	79.0	78.0 /b	..	64.0 /f	..	..
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	..	27.0	..	66.0 /g	..	94.0 /f
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	..	..	..	..	58.0 /f
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	88.0	376.0	..	276.0	263.0	223.0
PASSENGER CARS (PER THOU POP)	20.0	39.0	45.0	73.0	86.0	51.0
ELECTRICITY (KWH/YR PER CAP)	312.0	825.0	1110.0	1172.0	962.0	2350.0
NEWSPRINT (KG/YR PER CAP)	2.9	4.6	4.4	5.9	2.7	11.6

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970 and for Most Recent Estimate between 1973 and 1975.

* Due to emigration population growth rate is higher than the rate of natural increase.

** Data based on official definition which includes those willing to work but not actively seeking employment.

*** Israel has been selected as the objective country because of its similarity in population size and dependence on foreign trade.

<u>JAMAICA</u>	1960	/a 1958; /b 1961-62; /c 1963; /d 1962.
	1970	/a 1964-66; /b Inside only.
	MOST RECENT ESTIMATE: /a 1970-75; /b 1971; /c 1972.	
<u>TRINIDAD & TOBAGO</u>	1970	/a 15-64 years; /b Including midwives; /c 1964-66; /d Government maintained and aided schools only; /e Total, urban and rural; /f Inside only; /g 1966.
<u>CYPRUS</u>	1970	/a Ratio of population under 15 and 65 and over to total labor force; /b 1966, urban; /c 1964-66; /d Excluding Turkish schools.
<u>ISRAEL</u>	1970	/a Including data relating to certain territories under occupation by Israeli military forces since June 1967; /b Ratio of population under 15 and 65 and over to total labor force; /c Jewish wage earners, urban; /d Due to immigration population growth rate is higher than the rate of natural increase; /e Registered, not all practicing in the country; /f 1966.

RS, May 17, 1977

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960; 1970 and 1975 data.

Population and vital statistics:

Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newspaper (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

JAMAICA
SELECTED ECONOMIC DEVELOPMENT DATA

	Average	Actual	Est.		Average		1975	1976
	1970-72	1974	1975	1976	1970-75	1975-76		
NATIONAL ACCOUNTS								
	Constant 1974 US\$ Millions						As % of GDP	
GDP	2300.0	2468.9	2412.2	2271.6	1.4	- 5.8	100.0	100.0
Gains from Terms of Trade	0.3	0	127.1	77.3	-	-39.2	0	3.4
Gross Domestic Income	2300.3	2468.9	2539.3	2348.9	2.1	- 7.5	105.3	103.4
Imports (incl. NFS)	1090.4	1098.2	1126.0	895.0	0.3	-20.5	46.7	39.4
Exports (import capacity)	941.8	971.3	950.2	782.8	0.4	-17.6	39.4	34.5
Consumption	1722.3	1858.4	1905.8	1847.6	3.1	- 3.1	79.0	81.3
Investment	726.2	737.4	682.2	613.5	-2.0	-10.1	28.3	27.0
National Saving	395.1	406.9	440.8	439.9	-0.4	-	18.3	19.4
Domestic Saving	578.0	610.5	633.5	501.3	-0.5	-20.9	26.3	22.1
MERCHANDISE TRADE								
	Current US\$ Millions						% of Total	
Imports	76.0	122.3	129.9	109.1	15.0	-16.0	11.6	11.5
Food	95.5	78.2	103.9	72.7	3.1	-30.0	9.2	7.6
Other Consumer Goods	46.8	195.1	215.0	210.1	46.5	- 2.3	19.1	22.1
Petroleum	165.7	288.2	328.7	319.8	18.6	- 2.7	29.3	33.6
Other Intermediate Goods	180.1	252.0	345.9	239.8	12.1	-30.7	30.8	25.2
Capital Goods	564.1	935.8	1123.4	951.5	16.6	-15.3	100.0	100.0
Total Merchandise Imports (cif)								
Exports	225.3	518.2	499.2	440.5	17.3	-11.8	61.6	63.8
Bauxite-Alumina	37.9	81.4	153.7	86.0	33.7	-44.0	19.0	12.5
Sugar	80.5	94.1	157.6	163.7	14.2	3.9	19.4	23.7
Other	343.7	693.7	810.5	690.2	18.8	-14.8	100.0	100.0
Total Merchandise Exports (fob)								
Merchandise Trade Indices								
Import Price Index	57.9	100.0	116.8	126.7	16.8	8.5	.	.
Export Price Index	58.2	100.0	134.8	140.6	21.0	4.3	.	.
Terms of Trade Index	100.5	100.0	115.4	111.0	3.6	- 3.8	.	.
VALUE ADDED BY SECTOR								
	Constant 1974 US\$ Millions						As % of GDP	
Agriculture	192.5	190.1	193.0	186.3	3.5	- 3.5	8.0	8.2
Mining	307.4	345.6	255.7	218.1	0.8	-14.7	10.6	9.6
Other	1800.1	1933.2	1963.5	1867.2	9.2	- 4.9	81.4	82.2
Total	2300.0	2468.9	2412.2	2271.6	7.6	- 5.8	100.0	100.0
PUBLIC FINANCES								
Current Receipts	505.8	719.0	702.8	703.8	7.5	-	29.1	31.0
Current Expenditures	410.6	610.4	613.8	687.7	9.4	12.0	25.4	30.3
Public Sector Savings	95.2	108.6	89.0	16.1	-2.0	-81.2	3.7	0.7
Public Sector Investment	205.6	307.6	367.0	281.4	11.2	-23.3	15.2	12.4
CURRENT EXPENDITURE DETAILS								
(As % of Total Current Expenditure)	1974	1975	1976					
General Administration	28.2	30.7	29.9					
Social and Community Services	37.9	38.7	36.4					
Economic Services	20.2	17.3	23.9					
Other	13.7	13.3	9.8					
INVESTMENT PROGRAM DETAILS								
(As % of Total Capital Expenditure)	1974	1975	1976					
Economic Services	59.0	57.8	42.3					
Social Services	28.7	30.3	29.4					
General Services	9.7	5.1	18.4					
Other	2.6	6.8	9.9					
FINANCING OF PUBLIC SECTOR INVESTMENT PROGRAM								
(As % of Total Capital Expenditure)			1975					
Public Sector Savings			35.4	24.3	5.7			
Domestic Borrowing (net)			35.7	40.7	58.2			
External Borrowing (net)			28.2	34.5	30.9			
Other			0.7	0.5	5.2			
EMPLOYMENT AND OUTPUT PER WORKER								
	Total Employed				Value Added Per Worker (1974 Prices and Exchange Rates)			
	Thousands		% of Total		US\$		% of Average	
	1969	1975	1969	1975	1969	1975	1969	1975
Agriculture	232.8	223.3	37.7	32.8	662.4	864.3	21.1	24.4
Manufacturing	68.4	74.7	11.1	11.0	3549.7	5550.0	113.0	156.6
Public Administration	54.7	99.0	8.9	14.5	2972.5	2692.9	94.6	76.0
Other	261.1	283.8	42.3	41.7	3872.9	6089.4	123.3	172.1
Total or Average	617.0	680.8	100.0	100.0	3141.0	3543.2	100.0	100.0

. Not applicable.
- nil or negligible.

Country Programs Department II
Latin America and Caribbean Regional Office
May 12, 1977

JAMAICA

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT
(in current US\$ millions)

	1970	1971	Actual 1972	1973	1974	1975	Estimated 1976	Average Growth Rate 1970-75 1976	
SUMMARY BALANCE OF PAYMENTS									
Exports (incl. NFS)	521.6	543.0	568.7	631.6	971.3	1109.8	987.7	14.5	-11.0
Imports (incl. NFS)	598.0	632.8	660.8	780.7	1098.2	1315.7	1130.3	15.8	-14.1
Resource Balance (X-M)	-76.4	-89.8	-92.1	-149.1	-126.9	-205.9	-142.6	5.7	-30.7
Interest (net)	-5.7	-10.7	-11.9	-21.9	-33.0	-47.7	-66.9	34.6	40.3
Other Factor Service Income (net)	-92.5	-92.1	-107.7	-36.2	-34.6	-57.6	-54.2	..	-5.9
Current Transfers (net)	22.1	20.6	24.7	26.4	23.4	28.7	17.5	6.3	-39.0
Balance on Current Accounts	-152.5	-172.0	-187.0	-180.8	-171.1	-282.5	-246.2	5.9	
Private Direct Investment (net)	154.1	101.9	17.4	33.7	23.3	-1.9	-8.8	-50.1	-
Public M< Loans									
Disbursements	18.0	28.4	68.1	148.3	187.8	246.7	148.7	54.9	-39.7
Repayments	-8.3	-10.9	-19.1	-18.9	-31.6	-31.9	-119.6	17.8	55.5
Net Disbursements	9.7	17.5	49.0	131.4	156.2	214.8	99.1	115.0	-53.9
Capital Transactions n.e.i.	10.0	96.6	95.0	-14.8	51.0	-11.4	-132.8	..	..
Change in Net Reserves (- increase)	-21.3	-44.0	45.6	30.5	-59.4	81.0	288.7	..	..
GRANT AND LOAN COMMITMENTS									
Official Grants & Grant-like Loans	6.2	8.7	3.0	-	-	-	-		
Public M< Loans									
IBRD	5.7	13.5	-	9.3	46.5	15.0	6.8		
IDA	-	-	-	-	-	-	-		
Other Multilateral Governments	17.9	26.9	34.8	27.8	10.9	39.3	148.1		
Suppliers	-	13.5	9.6	2.2	-	1.9	-		
Financial Institutions Private	-	15.9	60.7	109.8	138.4	142.7	20.7		
Bonds	-	-	10.0	14.0	-	-	10.2		
Public Loans n.e.i.	-	0.7	-	-	2.4	2.0	46.9		
Total Public M< Loans	23.6	72.6	115.1	170.0	217.2	208.1	254.9		
DEBT AND DEBT SERVICE									
Public Debt Out. & Disbursed	129.0	147.9	177.0	306.0	474.8	647.4	799.0		
Interest on Public Debt	5.7	10.7	12.3	17.4	32.8	49.9	47.2		
Repayments on Public Debt	8.3	10.9	19.1	16.9	31.6	31.9	48.6		
Total Public Debt Service	14.0	21.6	31.4	34.3	64.4	80.9	95.8		
Other Debt Service (net)	..	..	..	..	..	..	..
Total Debt Service (net)	..	..	..	..	..	..	..
Burden on Export Earnings (%)									
Public Debt Service	2.7	4.0	5.5	5.4	6.6	7.3	9.7		
Total Debt Service	..	..	..	..	..	..	..
TDS+Direct Invest. Inc.	20.4	20.9	96.5	10.2	10.2	12.5	15.2		
Average Terms of Public Debt									
Int. as % Prior Year DO&D	4.0	7.9	8.3	9.8	10.7	10.3	7.3		
Amort. as % Prior Year DO&D	3.7	8.4	12.9	9.5	10.3	6.7	7.5		
IBRD Debt Out. & Disbursed	29.8	33.7	34.8	36.6	37.8	44.1	58.7		
as % Public Debt O&D	23.1	22.7	19.7	12.0	8.0	6.8	7.3		
as % Public Debt Service	11.7	13.2	12.1	12.8	7.1	6.6	6.4		
EXTERNAL DEBT									
	Disbursed Only		Percent						
World Bank	58.7		7.3						
IDA	-		-						
Other Multilateral Governments	12.5		1.6						
Suppliers	228.2		28.6						
Financial Institutions	17.5		2.2						
Bonds	384.8		48.2						
Public Debt n.e.i.	113.8		14.4						
Total Public M< Loans	53.4		6.6						
	798.9		100.0						

.. not applicable.
.. not available.

- nil or negligible.

STATUS OF BANK GROUP OPERATIONS IN JAMAICA

A. Statement of Bank Loans (as at March 31, 1977)

<u>Loan No.</u>	<u>Fiscal Year</u>	<u>Borrower</u>	<u>Purpose</u>	-----US\$ million-----	
				<u>Bank</u>	<u>Undisbursed</u>
5 loans fully disbursed <u>1/</u>				44.3	
690	1970	Jamaica	Population	2.0	0.2
727	1971	Jamaica	Education	13.5	7.9
899	1973	Jamaica	Highways	9.3	2.6
1003	1974	Jamaica	Sites & Services	15.0	11.8
1004	1974	Jamaica Development Bank	Agriculture	5.5	2.2
1032	1975	Jamaica	Highways	13.5	9.4
1043	1975	Jamaica	Airports	12.5	7.9
1146	1975	The Water Commission Kingston, Jamaica	Sewerage/Water	15.0	14.3
1284	1976	Jamaica	Population	6.8	6.8
Total (net cancellation) of which has been repaid				137.4 11.9	
Total now outstanding				125.5	
Amount sold				1.6	
of which has been repaid				<u>1.4</u>	<u>0.2</u>
Total now held by Bank				<u>125.3</u>	
Total undisbursed					<u>63.1</u>

B. Statement of IFC Investments (as at March 31, 1977)

<u>Year</u>	<u>Obligor</u>	<u>Type of Business</u>	-----US\$ million-----		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1961	Jamaica Pre-Mix Ltd.	Pre-mix concrete	0.2		0.2
1968	Pegasus Hotel of Jamaica Ltd.	Tourism	<u>2.2</u>	<u>0.7</u>	<u>2.9</u>
Total gross commitments			2.4	0.7	3.1
Less cancellations, terminations, repayments and sales			1.2		1.2
Total commitments now held by IFC			1.2	0.7	1.9
Total undisbursed			-	-	-

1/ A telecommunications loan (481-JM) was made in 1967 to the Jamaica Telephone Company and cancelled in the same year.

C. Projects in Execution

Ln. No. 690 Population Project; US\$2.0 million of June 18, 1970; Effective Date: November 2, 1970; Closing Date: March 31, 1977.

The project is substantially completed. All loan funds have been committed and disbursements will be completed in the near future.

Ln. No. 727 Second Education Project; US\$13.5 million of March 25, 1971; Effective Date: July 30, 1971; Closing Date: December 31, 1977.

Project implementation is about three years behind appraisal schedule due to a change in government, high turnover in project unit staff and a lack of project implementation machinery. However, project implementation now seems satisfactory. As a result of initial delays in getting the physical aspects of the project underway, the construction of schools will not be completed before August 1977. Thus, the Closing Date, originally December 31, 1975, has been extended to December 31, 1977. Due to sharp increases in prices and wages in the construction sector since appraisal, a substantial construction cost overrun of about US\$15 to 18 million, or about 60% to 65% of appraisal estimates, can be expected. Counterpart funds are available, however, to allow project implementation to proceed satisfactorily.

Ln. No. 899 Road Improvement and Maintenance Project; US\$9.3 million of June 1, 1973; Effective Date: August 31, 1973; Closing Date: December 31, 1978.

After some initial delays and quality control problems, the resurfacing and resealing program is proceeding satisfactorily. The technical assistance and training programs of the consultants are also proceeding satisfactorily. Total project costs are estimated to be about 50% above the appraisal estimate due to increased costs of asphaltic overlay; nevertheless, the project is estimated to have a rate of return of about 30%.

Ln. No. 1003 Sites and Services Project; US\$15.0 million of June 13, 1974; Effective Date: September 9, 1974; Closing Date: December 31, 1978.

The project is nearly one year behind schedule. Delays were caused by initial start-up problems and political violence which halted work on one site. The industry component of the project has been revised to give greater emphasis to small-scale enterprise.

Ln. No. 1004 Second Agricultural Credit Project; US\$5.5 million of June 13, 1974; Effective Date: October 3, 1974; Closing Date: December 31, 1977.

Project funds have been entirely committed.

Ln. No. 1032 Third Highway Project; US\$13.5 million of July 26, 1974;
Effective Date: September 27, 1974; Closing Date: December 31,
1977.

Construction has been delayed due to adverse weather conditions, redesign of some sections and labor problems. Although most project elements are now proceeding satisfactorily, the delays that have been encountered will undoubtedly lead to an as yet undetermined escalation in project costs.

Ln. No. 1043 Airport Development Project; US\$12.5 million of October 2, 1974;
Effective Date: March 14, 1975; Closing Date: June 30, 1978.

All major contracts have now been awarded, but earlier delays encountered during the design and award phases, mean that the project completion date will slip from 12 to 18 months, and the project cost will probably exceed appraisal estimates by about 10%. Though execution of work in progress has been slower than expected, the Government's tight fiscal situation makes the revised construction schedule more acceptable. The Airports Authority's aggressive management has improved this institution's financial position in spite of reduced traffic and high inflation. Nonetheless, the Authority will be unable to supply its contribution to the project financing plan. The shortfall will be made up by the Government with help from the Venezuelan Investment Fund.

Ln. No. 1146 Kingston Sewerage and Water Supply Project; US\$15 million of
July 23, 1975; Effective Date: June 24, 1976; Closing Date:
September 30, 1979.

Delays are being experienced in negotiating consultant contracts. This is in turn causing some delay in proceeding with major components.

Ln. No. 1284 Second Population Project; US\$6.8 million of June 17, 1976;
Effective Date: August 30, 1976; Closing Date: December 31,
1980.

The loan became effective two weeks ahead of schedule. A good start in the implementation of the project has been made. In civil works and procurement of special equipment, the project is ahead of the schedule in the Appraisal Report by about a month. The Cornwall County Program, which is the main component of the project covering nearly 25% of the population of Jamaica, is being implemented on schedule.

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable of Key Events

- (a) Time taken to prepare project: September 1974-September 1975
- (b) Agency which prepared project: Jamaican Ministry of Agriculture prepared the project with the assistance of other government agencies and several FAO/CP and Bank missions.
- (c) Project first presented to the Bank: July 1974
- (d) First Bank mission to review project: July 1975
- (e) Departure of appraisal mission: November 30, 1975
- (f) Completion of negotiations: December 10, 1976 1/
- (g) Planned date of effectiveness: August 31, 1977

Section II: Special Bank Implementation Actions

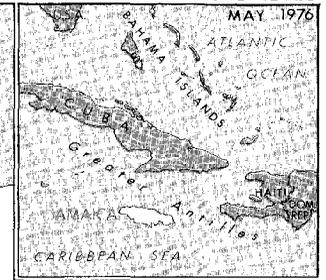
None.

Section III: Special Conditions

1. A formal approval by the Government of a plan for the reorganization of the Ministry of Agriculture would be a condition of loan effectiveness (para. 56).
2. The adoption of guidelines for operating policies and procedures for the Agricultural Settlements, which shall include a land rent review mechanism would be a condition of loan effectiveness (para. 57b).
3. The training program for Ministry of Agriculture employees would be completed and submitted to the Bank within six months of loan signing (para. 56c).
4. The Government would acquire 4,000 acres for settlement purposes within six months of loan signing (para. 57a).

1/ The uncertain Jamaican economic situation over the last year, and the time required for its assessment, contributed to delays in project processing.

5. Settlement plans not prepared by the time of loan signing would be completed within one year of loan signing (para. 57b).
6. The Government would provide the necessary funds to maintain the roads constructed under the project (para. 57c).
7. The Jamaica Development Bank would act as collection agent for the mortgage payments by the settlers (para. 57d).
8. The Government would cause the Jamaica Public Service Company and the National Water Authority to provide a timely supply of electricity and water for settlement (para. 57e).
9. The Government would assure the availability of adequate credit funds (para. 58).
10. User rates for food markets would be charged which would recover operation and maintenance costs, as well as capital expenditures at an annual interest of 8% (para. 59b).
11. User rates for water would recover operation and maintenance cost and, to the extent practical, capital expenditures, taking into account the payment capacity and preparedness of the users to pay (para. 59c).



JAMAICA FIRST RURAL DEVELOPMENT PROJECT

- PROPOSED DEVELOPMENTS:**
- Settlements
 - Markets
 - Water supply systems
 - Feeder roads

- SETTLEMENT SITE NAMES:**
- Montego Valley / York
 - Vaughansfield
 - Sweetwater
 - Kennilworth
 - Pellriver
 - Burntground
 - Whitehall
 - Canaan Mountain
 - Leamington

- EXISTING:**
- Main arterial roads
 - Secondary / earth roads
 - Railroads
 - Airports
 - Port
 - Parish boundaries
 - County boundary
 - Elevations over 1,000 feet
 - Rivers

The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.