MEMORANDUM FOR THE RECORD

Meeting with Mr. Coore, Finance Minister of Jamaica, January 28, 1974

Present: Messrs. McNamara, Coore, Ambassador Fletcher, Isbister, D.R. Clarke, Wiese

The Minister was returning from the C20 meeting in Rome and presented Mr. McNamara with a scheme for financing of oil purchases by developing countries. Oil exporters would contribute to a fund from which importers could draw. Contributions and drawings would be based on shares of market and there would be an agreed-upon rate of discount. The proposal was outlined in the attached memo.

The Minister said he had presented the proposal to African nations who have been interested and that he had support in the Caribbean for the proposal, particularly from Guyana. The African nations were working on a regional scheme and had had some success recently in Cairo where they had set up a bank with a capital of $200 million. The plan was for the Caribbean countries to approach Venezuela which in turn would raise the matter in the next meeting of OPEC.

The Minister said that Minister Amouzegar of Iran had said that oil-producing countries cannot all be placed in one category. Mr. McNamara agreed with this and said that developing countries could also not be put into one group. The problems of India are quite different from those of Mexico.

Mr. McNamara said that, if the Bank can be of assistance, it will do what it can. A number of different formulae are possible. He had spoken recently to the Secretary-General of OAPEC and had expressed a general willingness by the World Bank to study ways of oil expenditure. Mr. McNamara and the Minister both commented on how little thought seemed to have been given among oil producers to the problems facing developing countries.

Mr. McNamara said he would be willing to contact the Bank's Board to get a mandate to proceed with a proposal such as the one attached. He suggested that Minister Coore contact Sheikh Yamani of Saudi Arabia and Minister Abdesselam of Algeria.

Mr. McNamara said he would be willing to work on proposals to alleviate the financial problems caused by the oil crisis, but he would not take initiatives on his own without the support of a number of countries.

Mr. Wiese asked if Jamaican authorities had been in contact with Trinidad. The Minister said that Trinidad's problem was that all oil production was committed to the United States and that they were also purchasers of oil from the Middle East and Venezuela for refining. Mr. McNamara suggested that the Arab countries be approached direct.

AL
January 30, 1974
Memorandum for the Record

Date: January 29, 1974

Gunter K. Wiese, Programs Director, LAC II

Subject: Impact of Recent Oil Prices on Developing Countries - Visit of Jamaican Minister of Finance with Mr. McNamara

1. On January 28, 1974, Mr. David Coore, Minister of Finance of Jamaica, called on Mr. McNamara. He was accompanied by Mr. Douglas Fletcher, Jamaican Ambassador of the United States. Messrs. Isbister, Clarke and Wiese were also present. After an initial exchange of personal courtesies, the Minister explained that he was returning to Jamaica from a visit to Addis Ababa and Khartoum where he had discussions with OAU representatives on a common approach of African and Caribbean countries toward the solution of their present difficulties caused by increased oil prices. He emphasized how catastrophic the impact of these increases was going to be on the balance of payments of many developing countries. Some of the African countries had not yet fully grasped the scope of the difficulties they will soon be facing. The African countries had been thinking of a regional solution of their energy problems. They had envisaged making a special deal with the Arabian oil exporters with whom they had good political ties. He had warned against a regional solution because it would mean the exchange of one type of colonialism for another. He had convinced them that the difficulties of developing countries should be alleviated by a worldwide solution and had obtained their tentative agreement to the rough outline of a plan which he had worked out (a copy was handed over to the participants). The plan would provide for the establishment of a fund into which all oil producing countries would make payments on the basis of their share of world exports of oil. Developing countries would be entitled to draw from this fund on the basis of their share in the oil consumption of all developing countries. Drawings would not be repayable and not be linked to specific projects. There had been general agreement that some kind of mechanism would be needed to administer this scheme and that the World Bank would be an ideal institution to play this role and thus form a bridge between oil exporting nations and less developed countries. He asked whether the Bank would be prepared to assume such responsibility.

2. In reply, Mr. McNamara assured the Minister that the Bank felt a keen need for measures which would mitigate the impact of recent oil price increases on developing countries. The Bank had a legitimate interest in this matter since it was likely to be confronted with widespread default if the developing countries were unable to balance even their current foreign exchange transactions. Nevertheless, he had not yet proceeded to visit some of the major oil exporting countries since he wanted to be properly invited in order to ensure that useful discussions would take place. If there were to be a sufficient number
of developing countries proposing that the Bank assume a leading role in preparing a scheme which would help solve the present dilemma of the developing countries, he would be prepared to make suitable recommendations to the Executive Directors. He conceded that the scheme proposed by Mr. Coore could be one of many other conceivable ones aimed at achieving the same objective. Nevertheless, there were tremendous difficulties confronting anyone who tried to put such a scheme together. There was likely going to be a great divergence of opinion among oil exporting and developing countries as regards the sharing of burdens and benefits. In addition, the oil exporting countries up to this moment had not yet fully realized the extent to which their recent decisions affected the world economy in general, and the developing countries in particular. His recent conversations with the Secretary General of the Organization of Arabian Oil Exporting Countries had confirmed that no planning had been done by oil exporters on how they would use their greatly increased future revenues. He had told the Secretary General that the Bank would be willing to play a role in developing a proper approach to the energy problems of developing countries. He had requested the Secretary General to inform accordingly a meeting of Arab oil authorities to be held in Jeddah on February 14.

3. Minister Coore stated that the approach to the Arabs on behalf of the African and Caribbean countries would be made by the Guyanese Minister of Foreign Affairs and Justice, Mr. Shridath Surendranath Ramphal. On February 27 and 28, there would be another meeting of African countries in Addis to which the Caribbean countries would send an observer, and he would hope that by that time the reports of the Guyanese Minister would be available. In addition, the Jamaicans would send a mission to Venezuela to have the necessary conversations with the major producer of oil in the western hemisphere.

4. After some further discussion, it was agreed that Mr. Clarke would participate in a luncheon on January 29 which would include the Executive Directors representing Part II countries in the Bank and which would discuss possible joint initiatives by the developing countries to reduce the impact of recent oil price increases on their financial position. Mr. McNamara cautioned that any moves in this direction would have to be carefully designed so as to avoid undesirable political confrontations. He made some suggestions to Mr. Coore as regards the people to be approached in the Arab world.

cc: Messrs. Ljungh
Knapp
Alter o/r
Bell
Benjenk
Chaufournier
Knox
Clift
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Gunter K. Wiese, Director, LACII

DATE: January 28, 1974

SUBJECT: JAMAICA - Brief for Mr. Coore's Meeting with you on January 28

1. You may find it useful to have the following notes as a background brief for your meeting with Mr. Coore (Minister of Finance and Deputy Prime Minister) this afternoon at 4 p.m. We have not been informed by the government of any specific issues which Mr. Coore will wish to raise with you. However, last week the government announced a major package of monetary, fiscal and exchange control measures designed to check the rapidly deteriorating balance of payments situation and help curb accelerating domestic price inflation. The measures are described in the paragraphs below. No doubt Mr. Coore will wish to discuss the package of economic measures with you against the background of the Bank's fairly substantial proposed lending program for Jamaica over the next few years.

I. Economic Situation

Background

2. Jamaica achieved a rate of growth of about 5.5% in the 1960s although this rate has slowed down in recent years. Mining and tourism have expanded, while agriculture has stagnated and agricultural exports, notably of sugar, have declined. This shift in the production pattern has been accompanied by rapid urbanization and by the emergence of severe and persistent unemployment, currently about 15%. Under the pressure of militant trade unions, the size of wage settlements has been accelerating and major wage increases have reached 25% and above in recent months. At the same time after a relatively low rate of inflation averaging about 7% per annum during the period 1967-72, it is estimated that in 1973 the consumer price index will have risen by about 24%. While part of this increase can be attributed to imported inflation, including the domestic price effects of devaluation, the situation has been aggravated by the large wage settlements referred to.

3. A widening current account deficit over the period until 1972 had been offset by substantial private capital inflows for expansion of the bauxite/alumina industry. These inflows fell off sharply in 1972 with the completion of major investments in alumina capacity and, largely as a consequence, Jamaica experienced balance of payments difficulties. Corrective action taken late in 1972 and in early 1973, including devaluation, the imposition of import restrictions and a tightening of credit policy, was successful in temporarily reversing the reserve drain during the middle of 1973. However, since July exchange reserves have fallen again, largely as a result of stagnating exports and accelerating imports combined with some loss of confidence by potential overseas investors in Jamaica. The deficit on current account for 1973 is estimated at around $230 million, while foreign exchange reserves at the end of December 1973 amounted to about $81 million. Since then there has been further deterioration in reserves which now represent only four weeks of imports.
Recent Developments

4. I discussed the economic situation with the Prime Minister and Mr. Goore during a visit to Jamaica in early November to review with the government the Bank's draft economic report on Jamaica. At that time I urged upon the government the need for policies to moderate the growth of wages and to adjust interest rates to reflect the current rate of inflation in the country. I also raised the possibility of further action on the exchange rate to keep Jamaica's exports competitive and to restrain import growth. Following my visit, the Bank's concerns were embodied in a letter to the Prime Minister dated December 14 from Mr. Alter (copy attached). We were subsequently informed that the government was in the process of formulating a set of specific economic measures to deal with the country's economic problems and that the Prime Minister would write to us again as soon as the measures were finalized.

5. It is likely that the government were forced to take action more quickly than they had anticipated (local elections are due to take place on February 5) because of the worsening in the balance of payments prospects resulting from the recently announced increases in oil prices. It is estimated that these increases will add about $120 million to Jamaica's import bill during 1974. To cope with the situation the government announced a package of economic measures on January 23. They are as follows:

a) Monetary Measures - an increase in the Central Bank rate from 7% to 9%; this is likely to lead to an increase in the prime rate to a minimum of 11%. The Bank of Jamaica will not provide financial assistance to the banking system except in emergencies, and then at the penal rate of 1/16th of one percent per day - this will result in an annual rate of something of the order of 24%. The permissible limit of credit advances to the private sector by the banking system is frozen at the average level for December 1973.

b) Exchange Control and Import Measures - the Jamaican dollar (which is pegged to the U.S. dollar) will not be devalued. An amount of foreign exchange equivalent to J$64.5 million has been allocated for imports for 1974. Of this sum J$14.5 million has been allocated for consumer goods (this represents a reduction of J$79 million on the cost of 1973 imports). Certain inessential imports will be banned and the remainder will be put on specific licenses. Jamaican residents will be required to sell their declared foreign assets by July 31, 1974 and exchange the foreign currency proceeds with the Central Bank for Jamaican dollars. It is estimated that this will bring in about J$50 million to the foreign exchange reserves.

c) Fiscal Measures - the tax on gasoline has been increased from 18¢ to 53¢ on premium grade and from 14¢ to 47¢ on regular grade to bring the cost per gallon to J$1.20 and J$1.10 respectively. The sales tax has been increased from 25% to 50% for motor cars. A new sales tax of 75% has been imposed on airconditioning equipment and water heaters.
It is estimated that the net effect of the above measures, including some reduction in public expenditures during the remaining months of this fiscal year, will result in a net overseas borrowing requirement of around Jamaica $8 million.

6. This is a tough package of measures, many of which we have been urging upon the government, and you may wish to express your appreciation for the courage of the government in taking this action. At the same time you may wish to express some disappointment that the government still has not taken any action to institute an incomes policy. This is a particularly difficult policy measure to be adopted in Jamaica since the government party (People's National Party), and the Opposition Party (the Jamaican Labor Party), are each linked to the two main trade unions in Jamaica. We know that the government has opened up a tripartite dialogue with employers' representatives and the unions, but we have little evidence that concrete steps are being taken to formulate and implement a policy. Such a policy is unlikely to win acceptance unless it covers incomes and prices and also applies to all forms of income, e.g. dividends, profits, salaries. Mr. Coore might be asked whether the government is thinking in terms of an approach along these lines.

II. Bank Lending Program

7. I attach a copy of the approved Bank's operations and lending program in Jamaica. You will note that the lending program for FY74 and FY75 together totals $55 million, a substantial increase over the past. It seems probable that sufficient projects will be developed to realize a lending program of this order. Jamaica will need these inflows if it is to make a significant impact on its structural problems. We shall naturally have to keep the economic situation closely under review, and in our continuing dialogue with the government ensure that their public investment program is realistically matched to the resources, both domestic and overseas, which the government can raise and service.

Project Issues

8. We think that it is unlikely that Mr. Coore will raise any specific project issues with you. Nevertheless, a number of current issues on Bank operations in Jamaica are briefly described in the following paragraphs.

Sites and Services - you should be aware that negotiations are starting today with Jamaican representatives for the proposed sites and services project. The proposed loan at present stands at $12.3 million, representing 50% of total project costs (foreign exchange costs are estimated at no more than about 22% of total project costs). We understand that the Jamaicans consider that because of recent wage and price increases the
the estimated cost of the project is now likely to be significantly higher. The Bank may therefore be faced with the prospect of a higher loan than originally foreseen.

Second Agricultural Credit Project - as regards the proposed second agricultural credit project, we have explained to the government and the Jamaica Development Bank that with the current rate of inflation a continuation of the onlending rate under the existing project of 6 3/4% would be unacceptable. We have therefore proposed that the onlending rate for the second project should be set at 13% for the first year of the project (or until half of the proposed Bank loan is committed), when we would review with the government the onlending rate for the remaining years of the project taking into account the current and prospective rate of inflation, and government measures to contain it. We await a response from the government and the Jamaica Development Bank.

Airports Project - you will recall that following your visit to Jamaica in July you asked that the scope and timing of the proposed airports project should be reviewed in the light of Jamaica's other domestic priorities and its tight fiscal situation. Since then the Bank and government have had a series of discussions about the proposed project, resulting in agreements in principle to reduce the original project (estimated to cost about $29 million) to one estimated cost about $23 million. The major difference between the present project and that originally envisaged lies in the postponement of investment in a new passenger terminal for Montego Bay airport.

Agricultural Sector Study - following the agricultural sector review in which Bank staff participated, the government recently published a "Green Paper" setting out its proposed agricultural reform strategy for the next few years. We have suggested to the government that they might wish to call a meeting of potential bilateral and multilateral aid agencies in Jamaica to discuss how these agencies might most usefully assist the government in implementing its reform program.

Attachments

cc: Messrs. Knapp
     Alter o/r
     Knox, Director LACP
     Calika, Assistant to Director LACP o/r
     Ross, Senior Economist, LACII
     Edelman, Senior Economist, PR&P
     Kapur, Division Chief, LACII, o/r
     Abbate, Economist, LACII

AJClift:ean
The Honorable
Michael Manley
Prime Minister
and Minister of External Affairs
Jamaica House
Hope Road
Kingston 6, Jamaica

Dear Mr. Prime Minister:

Mr. Wiseman has now reported on his recent discussions with you and your colleagues in the Government. I understand that Jamaica is presently confronted by difficult economic problems which initially were created by rapidly increasing costs of essential imports but which have since been aggravated by the domestic reaction that they evoked. As a result, inflation has been accelerating, there has been a deterioration in the fiscal and international reserves position, and the prevailing interest rates in the country are causing serious under-pricing of capital.

I have no doubt that your Government is fully seized of the situation and will take firm action for its remedy. As you will recall, at the time of Mr. Heffernan's visit to Jamaica in July, he had emphasized in his discussions with the Government the need for an appropriate incomes policy and for interest rates which would promote employment as well as output growth. I understand that you have for some time been considering specific action in respect of wage control and increases in interest rates. I would now urge that action in these and other related policy areas not be delayed any further.
The Honorable
Michael Manley

- 2 -

December 14, 1973

While Bank staff are in touch with their counterparts in Jamaica to seek an agreement on interest rates and other issues as they affect certain proposed projects specifically, in particular the agricultural credit project which we have been considering, I would greatly appreciate hearing from you of the policy actions that the Government proposes to take with the objective of arresting the pace of domestic inflation and of dealing with the other aspects of the present economic situation. In the meantime, I am gratified to learn of the determined push being made to increase agricultural production, and would like to assure you of our readiness to provide any assistance that we can.

Kind regards,

Sincerely yours,

Gerald Alter
Regional Vice President
Latin America and Caribbean

cc: Messrs. Wiese, Director, LACII
    Kapur, Division Chief, LACII
    Edelman, Senior Economist, PR&PR

OWiese/SSKapur:jmd
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## Table IVA

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P.K.G 12/13/73
Introduction

1. This memorandum is submitted as a briefing paper prior to your dinner appointment on Thursday, November 13, with the newly appointed Jamaican Ambassador to the U.S., Mr. Alfred A. Rattray.

2. Like his predecessor (Mr. Douglas V. Fletcher), Mr. Rattray has also a legal background and, in fact, he comes from the same law firm in Kingston (Miles, Fletcher and Gordon). Before starting his law practice, the new Ambassador was employed at the Jamaican Ministry of Industry. More recently, he served with Jamaican statutory corporations and his last government appointment before coming to Washington was Chairmanship of the Jamaican Port Authority.

Political Background

3. Jamaica has a two-party system of government. For ten years since independence in 1962, the Jamaica Labor Party (JLP) held office. They were defeated at the election in 1972 when the Peoples National Party (PNP) led by Prime Minister Michael Manley won a landslide victory. During its first three years of office, the new government has moved progressively to the "left", politically adopting a program labeled "democratic socialism" by the Prime Minister, aimed at a more equitable distribution of income and a greater degree of public sector participation and intervention in the economy. New elections will be called in 1976 and the opposition JLP, led by Mr. Seaga, has already started campaigning.

Economic Position and Prospects

4. For the last two years the balance of payments and fiscal situation in Jamaica has given increasing cause for concern. After a period of relative economic stability and satisfactory growth in the sixties, the situation began to deteriorate in 1972. The adoption of expansionist fiscal and monetary policies and public expenditure programs by the new government put pressure both on the domestic price level and on the current account of the balance of payments. At the same time, the external capital account deteriorated as long-term capital inflows associated with a major investment cycle in the bauxite/alumina and tourist industries came to an end. The government took a series of corrective measures toward the end of 1972 and in early 1973, but these were overtaken by sharp increases in the price of food imports and a quadrupling of oil prices at the end of 1973 which created a critical situation for Jamaica.
5. The renegotiation of the sugar export prices to the United Kingdom in early 1974, followed by the unilateral imposition of a new production levy on the U.S. and Canadian-owned bauxite companies in May of that year, offered the prospect of substantial relief both to the balance of payments and to central government finances. However, there has also been a sharp increase in central government current expenditures, a good part of which is designed to provide relief to the unemployed and lower income groups. As a result, government savings are no greater today than in the historical past despite the additional revenues from bauxite. Yet, to achieve a significant long-term reduction in unemployment, the government has to sustain a sizeable investment program and substantial financing will be required for this purpose over the next few years. At the same time, it seems unlikely that Jamaica will be able to continue to borrow externally at the level of the last three years. External public and publicly guaranteed debt rose from about US$200 million in 1973 to about US$520 million in 1974 and the debt service ratio is expected to rise sharply to about 9% within two years from about 4% in 1972.

6. The deteriorating fiscal situation in Jamaica was brought to the attention of the Management at the CPP review in January 1975. The CPP proposed a slowdown in Bank lending to Jamaica during FY1976 when we would monitor the government's progress in raising public sector savings; in the event that the expected fiscal improvement did not materialize, we would propose a reduction in the level of Bank lending planned for the period after FY1976 at the time of the next CPP review. In accordance with Management's decision at the CPP review, a small Bank mission visited Jamaica in late January 1975 to review fiscal and balance-of-payments developments with the government and the Bank's anxieties were subsequently conveyed in a letter to the Minister of Finance. The letter stressed the need for restraint in current public sector expenditures and emphasized the importance of instituting an effective incomes policy.

7. Since then, the government has taken a number of measures to bring the fiscal situation under control. A ceiling has been set to central government expenditures and new revenue measures have been introduced. In this context, the introduction of a national payroll tax is particularly welcome. More importantly, wage guidelines have been introduced as an anti-inflationary measure although the effectiveness with which they will be implemented still remains to be seen (the details of the government's measures are given in Appendix I). A recent Bank updating economic mission concluded that the economic outlook has improved as a result of these measures. The dialogue between the Bank and Jamaica on matters of economic policy continues to be quite close. Following on from our contacts earlier in the year, the authorities requested that the Bank assist them to prepare medium-term fiscal projections for the public sector. The Bank responded positively to this request and mounted a technical assistance mission to this end with staff from the Programs Department and from the Central Economic Staff.

8. On the other hand, there are still some issues which cause us concern and which, if opportunity arises, you may wish to draw to the attention of the Ambassador. Jamaica has witnessed a persistent domestic inflation in recent
months (now running at about 15% compared with 27% in 1974) and the cost structure of Jamaican industry, agriculture and tourism is now out of line when viewed from an international perspective. Consecutive economic missions from the Bank in recent years have stressed that there can be no solution to the chronic unemployment problem in Jamaica without a strong growth of export-oriented economic activity. On these grounds there would appear to be a clear case for an exchange rate realignment. On the other hand, the experience of 1972 indicates that devaluation is unlikely to prove effective in Jamaica unless it is accomplished within the context of an effective incomes policy. Otherwise, the strong labor unions will soon erode the gains from devaluation in an open economy by building-up wage costs. It is for this reason that we place great emphasis upon the need for an effective incomes policy and upon the need for a strong institutional framework for implementing the recently announced wage guidelines.

The Dispute with Bauxite Companies

9. While you may not wish to discuss with the Ambassador the government's dispute with the foreign-owned bauxite companies, the following is provided as background information in case the matter is raised by Jamaican side. As mentioned in paragraph 5 above, in May 1974 the government unilaterally imposed increased taxes on the foreign-owned bauxite companies in Jamaica. The companies objected to the tax increases and three U.S.-owned companies (Kaiser, Reynolds and ALOOA) requested arbitration before the International Centre for Settlement of Investment Disputes (ICSID). Arbitration proceedings have been instituted although the Government of Jamaica is not participating in any of the proceedings. Two of the three arbitrators have been appointed and the arbitral tribunals have decided that the ICSID is competent to hear the dispute. Separately during the last year, the government conducted negotiations with Kaiser and Reynolds on a number of issues, including, inter alia, equity participation by the government in the companies' mining operations, ownership of bauxite land and supply of bauxite to a new aluminum processing plant to be established in Jamaica. Agreement in principle between these two companies and the government on these issues, including the production levy, was announced earlier this year. It is our understanding that when the details of the agreements have been finalized and full and binding agreement is reached between the parties, the two companies will no longer pursue their claims through ICSID. We understand that private discussions between the government and ALOOA have recently taken place in Jamaica, although no decision has been announced.

The Bank Lending Program

10. Attached to this memorandum (Appendix II) is an updated version of the Bank's 5-year lending program (1976-80) in Jamaica. We are not aware of any questions which the Ambassador intends to raise with you about the Bank's lending program. However, the government is concerned that, in determining the level of its lending in Jamaica, the Bank may place too much emphasis on the country's relatively high per capita income (US$810 in 1972) and pay insufficient regard to the country's narrow resource base, the economy's vulnerability to external factors and its deep-seated structural problems, e.g. high unemployment. If the Ambassador raises this matter, you may wish
to say that a variety of factors have been taken into consideration in establishing an appropriate level of Bank lending to Jamaica, including its absorptive capacity, debt servicing ability, and its domestic fiscal performance and that due regard has been paid to such factors as the high degree of "openness" of the Jamaican economy. You might also wish to point out that the level of Bank lending to Jamaica has expanded in recent years, increasing from a level of about US$50.0 million during the period 1970-74 to a projected level of US$95.0 million for 1976-80, or US$9.5 per capita per annum (in current prices).

11. The implementation of a program of this magnitude, including major investments proposed by the government in the alumina industry and in an oil refinery (see paragraph 14 below), will require substantial counterpart funds by the government. In our recent exchanges with the government, we have stressed the importance of increasing the level of public sector savings and the need to conserve the country's foreign exchange earnings to ensure the availability of necessary domestic financial resources. There are already indications that increasing budgetary constraints may result in a slowdown in implementing some Bank-financed projects. However, the position should be eased by the recent establishment by Venezuela of a US$50 million Investment Fund which may be used by Jamaica to meet the local costs of projects being financed by development agencies, including the Bank.

The Bank Projects in Execution

12. We have experienced a number of difficulties in the execution of projects in Jamaica in recent years, partly because of public utility pricing problems (e.g. the first water supply project) and also because of managerial weaknesses (e.g. the second education project). However, the position has improved significantly during the last year or so and there are currently no major problems on the projects in execution. (Appendix III-A summarizes the status of the Bank projects in execution.) The recent establishment of a new Project Unit in the Ministry of Finance is a welcome development and should help significantly in expediting the implementation of ongoing projects and in the development of new projects.

The Bank Projects under Preparation

13. There are five projects under active preparation for Bank financing in Jamaica. A proposed population and nutrition project has just been appraised. The Bank is planning to appraise an important rural development project next month. We hope that it will be possible to arrange a parallel financing operation with the Venezuela Investment Fund for this project. A third agriculture credit loan to the Jamaica Development Bank should be ready for appraisal early in calendar year 1976, as should a proposed sugar rehabilitation project. Also scheduled for appraisal in 1976 is a proposed second power loan to the Jamaica Public Service Company. (Further details of projects in preparation are given in Appendix III-B.)

Proposal for an Oil Refinery in Luana

14. The Ambassador may raise the question of possible Bank finance for infrastructure investments associated with a proposed oil refinery to
be built at Luana Point in Jamaica. The project was originally planned to have a 250,000 barrels-per-day output, but due to the energy crisis, the plans have been scaled down to 80,000 barrels per day to meet only Jamaica's domestic needs. The refinery, estimated to cost J$110 million, would be wholly government-owned and largely based on crude oil imported from Venezuela. Mexico is to undertake certain feasibility studies for the project. We also understand that initial approaches have been made to the Inter-American Development Bank and to commercial banking sources for possible loan financing for the project and its associated infrastructure. The Bank has so far not expressed any interest in financing of this project. If the Ambassador asks about possible Bank financing, we recommend that you say that the project appears to be a capital-intensive investment with a relatively small added value accruing to Jamaica; consequently, given the country's unemployment problem, we feel that, as far as the Bank lending is concerned, it ranks low in priority as compared with the projects in the Bank's pipeline. In addition, there may be other projects in the industrial sector such as a labor-intensive small-scale industries project, which might be more usefully explored for future Bank financing.

att.

1/ US$1.00 = US$1.10

cc: Messrs. Chaufournier, Acting Senior Vice President
    Krieger
    Broches
    Knox, Director, LAC Projects
    de Vries, Chief Economist, LAC
    Ross, Senior Economist, LAC CPII
    Earwaker/La Pittus, LAC CPIIC
    Clift, LAC CPIIC o/r
JAMAICA - ECONOMIC MEASURES ADOPTED BY GOVERNMENT IN 1975

1. In August 1975, the Prime Minister announced that an Economic Stabilization Committee would set wage guidelines as an essential part of the government's battle against inflation. Such guidelines would be discussed with the trade unions and business community before their implementation in an effort to arrive at a consensus on the stabilization effort.

2. As a second phase of his anti-inflationary program, the Prime Minister announced in October that:

(a) Central Government expenditures will be contained to J$325 million, quite close to the original budget figure of J$371 million (this would eliminate the practice of supplementary budgets);

(b) A national payroll tax covering employers, employees and the self-employed will be instituted on January 1, 1976. (The official estimate of its yield in calendar 1976 is J$50 million or 5.5% of estimated 1975/76 Central Government expenditures. Proceeds are earmarked for low income, owner-occupied housing. However, a substantial proportion of the funds are likely to find interim placement in Central Government debt and thus aid in financing the Central Government's deficit in a non-inflationary manner);

(c) Wage guidelines:

(i) for employees with incomes less than J$7,000 per annum, wage increases will be limited to amounts sufficient only to restore real income levels of June 1973;

(ii) for employees earning between J$7,000 and J$16,000 increases will be limited to money amounts no greater than the maximum money amount granted in category (i) above;

(iii) salaries in excess of J$16,000 will be frozen.

(d) The minimum weekly wage will be J$20 or J$0.50 per hour.

3. These measures are likely to have a measurable impact in containing inflation and improving fiscal performance and public sector savings. A vaguely worded rent roll-back in "depressed areas" has also been announced with possibly adverse effects on private sector housing construction. Prices will be put under greater surveillance; the administration of price controls might lead to a mis-allocation of resources. The Prime Minister appears to have explicitly recognized the essential role of the private sector in the economy and announced a number of positive steps in the fields of credit availability, export finance, and tax incentives.

* J$1.00 = US$1.10.
## APPENDIX II

(See Footnotes on Amendments)

### JAMAICA - ACTUAL AND PROPOSED LENDING THROUGH FY1980

(US$ million)

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### Amendments

- **a/** Deferred to FY1978 (Standby); increased to $10.0 million.
- **b/** Deferred to FY1977.
- **c/** Increased to $15.0 million.
- **d/** FY1977-standby; increased to $4.0 million.
- **e/** Approved in FY1975; $15.0 million.
JAIMEICA — IBRD PROJECTS IN EXECUTION

In. No. 598  Kingston Water Supply Project; US$5.0 million of May 11, 1969
Closing Date: September 30, 1976

This project has almost been completed. There were delays in execution primarily due to weak management in the Water Commission. The major problem has been the failure of the Commission to attain the 8% financial rate of return covenanted in the Loan Agreement, due to insufficient control over labor costs and procrastination by the government in granting water and sewerage tariff increases. These problems are being addressed in the recently approved Kingston Sewerage and Water Supply Project (see below).

Closing Date: September 30, 1979

Substantial water and sewerage tariff increases (over 70% and 50%, respectively) during the last year should significantly improve the financial situation and prospects of the Water Commission provided it maintains stricter control over labor costs. The appointment of a new General Manager should make an important contribution in the area of cost control. The terminal date for effectiveness of this loan has recently been extended to January 31, 1976 to allow the Commission more time to recruit a suitable candidate for this post.

In. No. 727  Second Education Project; US$33.5 million of March 25, 1971
Closing Date: December 31, 1975

Major problems were encountered in the early stages of this project due primarily to failure by the government to staff the Project Unit adequately. Progress has improved significantly during the last year as a result of the transfer of the construction aspects of the projects to a recently established National Development Agency and the appointment of a senior official as Project Manager.

In. No. 690  Population Project; US$2.0 million of June 18, 1970
Closing Date: March 31, 1977

This project is nearly completed. There were delays in constructing the ten rural maternity centers and the post partum extension to the Victoria Jubilee Hospital, due to problems with constructors and lack of coordination between the Ministry of Works and the Ministry of Health. Management weakness in the National Family Planning Board limited the effectiveness of the family planning aspects of the project. However, following the recent transfer of the major responsibility for the family planning program to the Ministry of Health, we expect better progress in the proposed Second Population and Nutrition Project (see Appendix III - B).

In. No. 717  Agricultural Credit Project; US$3.7 million of December 28, 1970
Closing Date: June 30, 1976

In. No. 1004  Second Agricultural Credit Project; US$5.5 million of June 13, 1974
Closing Date: December 31, 1977

These loans provide credit for commercial farmers (with land holdings of 100 - 300 acres). Both projects are progressing satisfactorily although greater emphasis needs to be placed on increasing the productivity of the farms covered by the projects.
In. No. 1043 Airport Development Project; US$12.5 million of October 2, 1974
Closing Date: June 30, 1977

After considerable initial delay in appointing the engineering consultants, the construction aspects of this project are now progressing satisfactorily. In spite of substantial increases in the user charges, the financial situation of the newly-created Airports Authority of Jamaica is weak and it will not be able to make its agreed financial contribution to project costs although the government hopes to make up the shortfall from the Venezuela Investment Fund.

In. No. 1003 Sites and Services Project; US$15.0 million of June 13, 1974
Closing Date: December 31, 1976

The construction aspects of this project are proceeding satisfactorily and the first year housing sites at Kingston, Spanish Town and Montego Bay should be completed with only a relatively short delay. There has been some delay in starting the study for the Kingston urban development plan and the study of the organization and programs of the Ministry of Housing.

In. No. 899 Road Improvement and Maintenance Project; US$9.3 million of June 1, 1973
Closing Date: December 31, 1976

In. No. 1032 Third Highway Project; US$13.5 million of July 26, 1974
Closing Date: December 31, 1977

These projects are progressing reasonably satisfactorily although substantial cost overruns are likely to be incurred largely because of the rapid increase in labor costs in Jamaica since appraisal and the high risk factor perceived by foreign contractors relating to aggressive labor unions.
JAMAICA - IBRD PROJECTS IN PREPARATION

Population and Nutrition Project (FY77- Standby; US$4 million)

This project has just been appraised and might include: (a) the construction of 59 new health centers and 26 re-modelled centers to provide integrated family planning, maternal-child care and nutrition services in the County of Cornwall; (b) a feasibility study for a supplementary food processing plant and (c) technical assistance for midwifery training, (d) a mass communications program and (e) the establishment of a planning and evaluation unit. No major issues are foreseen at this stage; the loan is scheduled for Board Presentation in June 1976.

Rural Development Project (FY77; US$15 million)

This project is scheduled for appraisal in December 1975 and might include: (a) settlement of 1,600 farming families in the Country of Cornwall; (b) construction of rural feeder roads; (c) supply of potable water and (d) marketing facilities. The Bank preappraisal mission has had reservations about the inclusion in the project of components for the industrial training and housing research. The project cost is presently estimated at US$52 million but may be scaled down to about US$45 million. In addition to the proposed Bank loan of US$15 million, contributions of US$15 million would be forthcoming from the government of Jamaica and of US$15 million from the Venezuela Investment Fund. The Bank loan is scheduled for Board Presentation in August 1976.

Sugar Rehabilitation Project (FY77; US$12 million)

This project, scheduled for appraisal in February 1976, might include the rehabilitation of sugar factories and field investment (re-planting, irrigation, drainage) to improve productivity. The government has embarked on a program to farm the bulk of the sugar cane lands through cooperatives; it will be critical to the success of the project that these cooperatives are soundly organized and managed. Parallel financing with the British Commonwealth Development Corporation (CDC) may be arranged.

Third Agricultural Credit Project (FY78 - Standby; US$10 million)

This project, to be appraised early in calendar year 1976, would provide for credit for livestock, dairying, coconuts and citrus farms development through the Jamaica Development Bank (JDB). As in the first two projects, the emphasis would continue on medium size commercial farms since the Inter-American Development Bank is providing ample credit through the JDB for smaller farmers in the 5-25 acre range.

Second Power Project (FY78; US$15 million)

This project would include financing of improved power transmission and distribution by the Jamaica Public Service Company, a government-owned public utility. The project would also aim at improving the Company's weak financial performance and strengthen its preventive maintenance procedures. Feasibility studies are currently under way and the project should be ready for appraisal by the middle of calendar year 1976.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: A. Broches

DATE: November 12, 1975

SUBJECT: ICSID - Jamaica Cases

1. I understand that you will meet the Jamaican Ambassador at dinner. Last week I met Ambassador Rattray at lunch with Jack Clarke at whose suggestion the Ambassador had invited me. Rattray was in private law practice before taking up his post. The lunch was a social occasion but the conversation dealt mainly with the bauxite disputes and Rattray predictably expressed the view that Jamaica was not only right on the merits, but was also as a technical legal matter justified in taking the position that the Centre had no jurisdiction, notwithstanding Jamaica's acceptance of an ICSID arbitration clause in its agreements.

2. The only information the Ambassador had about the arbitration proceedings (as distinguished from the background of the dispute) came from documents and extracts supplied by me to Jack Clarke, and constituting everything that is on the public record. The Ambassador had not seen, and I was not at liberty to give him, the proceedings and decisions of the Arbitral Tribunals, whose text is confidential and is sent only to the Deputy Prime Minister of Jamaica and counsel for the claimant concerned, respectively. The Ambassador had not been aware of the fact that Jamaica did receive all documents in the case, and that some 25 communications had been addressed to it in the course of the proceedings.

3. Your concern with the cases in your capacity as Chairman of the Administrative Council has been limited to the appointment to each of the Tribunals of two arbitrators, namely Messrs Trolle (Chief Justice, now retired, of the Danish Supreme Court) and Rouhani (Iranian jurist, former Secretary General of OPEC). These appointments were made by you pursuant to the provisions of the ICSID Convention, when Jamaica failed to participate in the constitution of the Tribunals.

4. Because of Jamaica's failure to appear at the first session of the Tribunals in April of this year, the Tribunals first examined whether they were competent. The three claimants submitted Memorials on this question, Jamaica did not and the Tribunals, in reasoned opinions, decided that they were competent in all three cases.

5. From this point on there is a difference between the actions of Alcoa on the one hand, and Kaiser and Reynolds on the other.

6. The latter two companies have reached agreements in principle with Jamaica which provide, in part, that upon final agreement the companies will withdraw from the arbitration proceedings. For the time being, however, they are keeping these proceedings alive, while requesting an extension of time to present Memorials on the merits.
7. Alcoa has presented a Memorial on the merits on the question of liability (the question of damages being reserved until later) and Jamaica's answer is due January 19, 1976. It is expected that Jamaica will not respond.
1. On September 30 Mr. McNamara met with Ministers Coore (Finance) and Fletcher (Industry) as well as Mr. J. Clarke and two other members of the Delegation. Present were Messrs. Knapp, Krieger, Lerdau, Holsen and Koch Weser.

2. Mr. Coore presented Jamaica's request for a $30 million program loan. Mr. McNamara said that both because of the Articles of Agreement and because of the skepticism of the Board of Directors toward program loans, it was particularly important that a sound case be presented to the Board for such operations. This meant that it should be clear that the loan was in support not only of an IMF stabilization program but also of a medium term development (or public investment) program. Moreover, the Board would need to be assured that this operation was not at the expense of project lending. Adding the proposed program loan of $30 million to the projects in the pipeline would give Jamaica an extraordinarily high per capita Bank lending. Nevertheless, he was prepared to agree to it, in view of Jamaica's present need and of its own efforts. It would be particularly important, however, that progress was made with the loans already committed; the Bank was quite concerned with the lack of movement in several of them.

3. Mr. Coore said that he agreed that project execution was unsatisfactory under several of the Bank's loans; there were administrative and managerial problems in the Sites and Service project, the water tariff issue had been unduly delayed (Mr. Fletcher interjected that the relevant Minister had changed) and the Jamaican Development Bank had problems partly attributable to internal deficiencies and partly to the external economic situation. But he thought that progress was now being made on all these issues and he understood why Mr. McNamara saw a relation between project issues and the program loan.

4. On the latter, he said that while he agreed to the proposal to have two tranches, he would like to ask that the first tranche be larger than the second, since this would help Jamaica fulfill its obligations under the IMF Stand-by Agreement. He also expressed his understanding and agreement with Mr. McNamara's point about the need to present a medium term public investment program and indicated that a draft might be available in November.

5. Mr. McNamara referred the matter of the size of the two tranches to the Region, asking that this be discussed in detail with the IMF. Mr. Knapp added that the timing of the presentation of the investment program was one of the relevant factors in this connection.
6. Mr. McNamara then asked the Minister for his views on integration possibilities in the Region, and the Minister said that certain possibilities existed and some were coming close to fruition - especially some multi-national projects (e.g. Jamaica-Mexico, Trinidad-Guyana) but that a good deal of political work would have to precede the technical work for the more ambitious initiatives to prosper. At the same time, it was clear that some of the smaller islands would not be economically viable nations without some regional programs. Mr. McNamara expressed his willingness to have the Bank help in any practical effort to develop regional projects or institutions. He also expressed his hope that the Caribbean Development Bank would play an increasing role in these matters, and noted that we were planning a second loan to that institution fairly soon.

cc: Mr. McNamara
    Mr. Knapp
    Mr. Chenery
    Mr. Krieger
    Mr. van der Meer
    Mr. Holsen
    Mr. Gonzalez-Cofino

ELerdauf:jd
WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: MEMORANDUM FOR THE RECORD

FROM: R. Lerdau, Director, LAC II

DATE: December 19, 1977

SUBJECT: JAMAICA: Visit of Prime Minister Manley

1. Prime Minister Manley, accompanied by Messrs. P. J. Patterson, Minister of Foreign Affairs; R. Fletcher, Minister of State and Finance; H. Walker, Governor, Bank of Jamaica; A. Rattray, Ambassador to U.S.; and O. Jefferson, Director, Projects Division, Ministry of Finance, called on Messrs. McNamara and Knapp on December 15. Mr. Manley said that the medium term outlook for Jamaica was relatively favorable; that the preparation of the five year development program was progressing well and that it was indispensable that the program be carried out. On the other hand, he said that the short term situation was extremely serious. The combined impact of the increased price of oil, the difficulties with the bauxite companies and the recession in tourism had driven Jamaica first to borrow commercially and, when the balance of payments deteriorated, to adopt a very stringent stabilization program. While the latter was necessary, it had led to great hardships; all the gains that his Administration had made in reducing unemployment had been wiped out. Unemployment now stood at 25% of the labor force. For 1978 he estimated that 81% of foreign exchange earnings would be required for oil imports and debt service,1/ leaving little for needed imports of food and other essentials.

2. The Prime Minister argued that Jamaica's situation was typical of that of many middle income countries and said that he was disturbed to hear that the Bank thought that middle income countries could resolve their problems by increasing their indebtedness to commercial banks. He pleaded rather for a reconsideration of the per capita income criterion for soft loan assistance and asked that at least projects designed to satisfy basic human needs be financed on soft terms even in middle income countries. He argued that countries like Jamaica simply could not afford to take up the funds that were available to them under the present rules because they might not be able to repay them.

3. Mr. McNamara pointed out that Jamaica is far from typical for middle income countries, if only because real income per capita in Jamaica fell by some 30% during the last five years while in the middle income countries at large it rose by 16%. He thought that one of Jamaica's special characteristics was its great dependence on extremely volatile exports.

4. He also said that it was true that in his view the middle income countries, as a group, were able to take on substantial amounts of additional debt; indeed they would have to do so to create the required employment opportunities and income growth. By 1985 the external debt of middle income

1/ In this calculation the Prime Minister evidently assumed that no part of the external debt would be rolled over. He also used figures that cannot be reconciled with those of the Bank and the Fund, which in turn have been agreed upon with the Jamaican Financial Authorities. (See attached Table.)
countries from private sources was projected to amount to $250 billion, as against $70 billion at the end of 1976 and $35 billion three years earlier. The problem of the poor countries was quite different, they were not, in effect, able to take on much additional conventional debt and therefore it was necessary to concentrate all available soft term funds on these countries. Consequently he could not agree to "basic needs sub criteria" for IDA eligibility, since this would divert soft money away from the countries that needed it most.

5. The Bank was conscious of Jamaica's special problems and was showing its responsiveness both by making the $30 million Program Loan approved by the Board on December 13 and by an unusually large total lending program for Jamaica. In fiscal 1977 the Bank expected to lend $68 million to Jamaica, i.e. $34 per capita; this was the largest per capita lending to any country and was only acceptable precisely because of our recognition of the special problems which the Prime Minister had described.

6. Mr. McNamara then referred to the ongoing Caribbean Conference and expressed the Bank's willingness to do what it could to foster intra regional cooperation. Mr. Manley said that he, too, was doing what he could in this respect and that there would be a foreign minister's meeting in January.

7. In response to further questions, Mr. McNamara summarized the Bank's new energy policy and also said that he saw no difficulty in principle with financing conversion from oil to coal, when the projects concerned were economically justified. On the other hand, he discouraged the Jamaican Government from investing in coal in third countries; there was no need to fear a world shortage of coal and it would probably be more economical to use Jamaica's scarce capital resources domestically, and to purchase needed coal imports.

8. Finally, the discussion turned to the Bank's future lending levels and to the capital increase period. The Prime Minister offered to do what he could to be helpful in this respect and Mr. McNamara expressed his appreciation.

cc: / Mr. McNamara's Office (2)
    Mr. Knapp
    Mr. Krieger
    Mr. Gonzalez-Cofino

ELerdau:jd
JAMAICA: Burden of Debt Service Payments and Oil Imports

(US$ million)

<table>
<thead>
<tr>
<th>Item</th>
<th>Actual 1976</th>
<th>Estimated 1977</th>
<th>Projected 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Merchandise exports</td>
<td>661.0</td>
<td>799.0</td>
<td>942.8</td>
</tr>
<tr>
<td>2. Tourism</td>
<td>105.0</td>
<td>85.0</td>
<td>120.0</td>
</tr>
<tr>
<td>3. Other nonfactor service receipts</td>
<td>172.8</td>
<td>152.0</td>
<td>172.5</td>
</tr>
<tr>
<td>4. Total exports (including NFS)</td>
<td>938.8</td>
<td>1036.0</td>
<td>1235.3</td>
</tr>
<tr>
<td>5. Petroleum imports</td>
<td>203.5</td>
<td>220.0</td>
<td>245.0</td>
</tr>
<tr>
<td>6. Other imports</td>
<td>940.5</td>
<td>821.0</td>
<td>929.3</td>
</tr>
<tr>
<td>7. Total imports (including NFS)</td>
<td>1144.0</td>
<td>1041.0</td>
<td>1174.3</td>
</tr>
<tr>
<td>8. Interest on public debt</td>
<td>54.0</td>
<td>59.3</td>
<td>65.0</td>
</tr>
<tr>
<td>9. Interest on private debt a/</td>
<td>n.a.</td>
<td>61.1</td>
<td>87.5</td>
</tr>
<tr>
<td>10. Total interest</td>
<td>n.a.</td>
<td>120.4</td>
<td>152.5</td>
</tr>
<tr>
<td>11. Amortization of public debt</td>
<td>51.4</td>
<td>80.8</td>
<td>107.0</td>
</tr>
<tr>
<td>12. Amortization of private debt a/</td>
<td>n.a.</td>
<td>137.5</td>
<td>101.6</td>
</tr>
<tr>
<td>13. Total amortization</td>
<td>n.a.</td>
<td>218.3</td>
<td>208.6</td>
</tr>
<tr>
<td>14. Debt service payments + oil imports as % of total exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(10 + 13 + 5) + 4</td>
<td>53.9%</td>
<td>49.1%</td>
</tr>
</tbody>
</table>

a/ Information on the private debt service payments is based on a survey carried out in 1977. Estimates on these are not available for 1976.

December 16, 1977
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Adalbert Krieger
DATE: December 12, 1977
SUBJECT: JAMAICA - Briefing Memorandum for the Visit of Prime Minister Michael Manley on December 15

1. Prime Minister Manley's meeting with you on December 15 is part of a three-day visit to Washington which will also include meetings with President Carter (December 16) and Messrs. Witteveen and Ortiz-Mena (December 15). Mr. Manley may proceed to Ottawa for a meeting with Mr. Trudeau after his visit to Washington. We have not been officially advised of the topics Mr. Manley wishes to pursue with you, although we have unofficially learned that Mr. Manley may wish to discuss "global" topics—the north-south dialogue, the new international economic order and energy. We understand that he is particularly interested in the Bank assuming a leading role in financing energy exploration.

2. It is possible that, depending on the outcome of discussions on the Conference on Economic Development in the Caribbean on December 14 in the Bank, Mr. Manley may wish to discuss Caribbean regional issues with you. He may also wish to discuss the need to restructure the official short-term commercial bank debt of developing countries. This is a subject Jamaica may also raise at the December 14 Conference.

Political Background

3. Prime Minister Michael Manley's Peoples National Party (PNP) was returned to power in last December's vigorously contested elections in which it captured 80% of Parliament and 57% of the popular vote. The overwhelming PNP victory has maintained the effectiveness of the opposition and perhaps because of the lessened need for party unity, made more apparent the divisions within the PNP itself. On the one hand there is a majority "moderate" wing of the party committed to a mixed economic system under "democratic socialism" and, on the other, a small but vocal minority committed to a rigid Marxist/ Socialist political and economic system. The Prime Minister has been unable to subdue the rhetoric of the radical wing of his party and, as a result, the private sector has been uncertain of its future.

4. The Government's major concerns over the last two years have been in dealing with its short-term economic problems and their effects. Difficult economic conditions have no doubt been responsible for some of the crime, violence and unrest that Jamaica has experienced. The Government felt confident enough of its political position this past June, however, to lift the state of emergency that had been in place for about a year. Its ability to proceed with the currency devaluation that took place last April, in the face of statements earlier in the year that it would take no such action, and the maintenance of a restrictive wages policy throughout this year, are evidence of the extent of the Government's political strength.
This strength will receive further tests in the months to come, as the Government continues to implement the two-year Stand-by economic program agreed to with the Fund in August 1977.

Economic Background

5. The current economic situation is described in Attachment 1, which is taken from the November 21, 1977 President's Report for the Program Loan. Current economic problems have both external and internal causes. The severe balance of payments crisis which arose in 1976, was in significant part caused by falling foreign exchange earnings from bauxite, sugar and tourism exports, and the increased cost of imports, particularly energy. As a result, the Government has been forced to drastically limit imports and this has led to severe reductions in production and employment in Jamaica's highly import-dependent economy. The Government has also been forced to curtail and revise the timetable for its ambitious social programs to avoid further deterioration of its fiscal situation. It evolved a stabilization program in the first half of 1977, which culminated in the Stand-by agreement which was reached with the IMF in August 1977.

6. The Fund is currently evaluating Jamaica's eligibility to make a second drawing under the Stand-by arrangement. Although the Fund has not been fully satisfied that the ceilings on public sector credit and net domestic assets of the Bank of Jamaica that were established in the Stand-by have been met, it appears as if the Government will be able to meet these targets in the very near future.

The Bank Lending Program

7. Including the Program Loan, the Bank has made 16 loans to Jamaica, totalling $182.4 million. The review of Bank Group operations in Jamaica (taken from the Program Loan President's Report) and the current five-year lending program are attached (Attachments 2 and 3) for your information.

8. In addition to the Program Loan, we have two loans scheduled for Board presentation on January 24—a $20 million loan in the power sector and an $18 million sugar rehabilitation loan. We are also currently appraising a small scale enterprise loan, for which we have programmed $7 million.

9. The difficult economic conditions over the last year have caused some implementation problems. They have slowed down counterpart contributions required to support our projects; diverted the attention of key officials from solving project implementation problems; and caused repayment problems in intermediate credit operations. Some of the problems are now being resolved and we are hopeful that the remaining ones will be resolved in the near future, as economic conditions improve.

Attachment 1 - Review of Economic Situation
Attachment 2 - Bank Group Operations
Attachment 3 - Five Year Lending Program
Attachment 4 - Biographical Notes
c/w & cc: Messrs. Gonzalez-Cofino, Chief, LC2DC
        Ayub, LC2DC

cc: Messrs. Knapp
    Holsen, LCNVP
    Ross, LC2
    Jaspersen, LC2

Robert Kanchuger: act
Background

3. Many of the long-term structural problems of the Jamaican economy today have their origin in the pattern of growth of the 1960s. During the decade following independence in 1962, Jamaica experienced rapid economic growth, averaging about 6% per annum in real terms. 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 tons to 2 million tons. Large private capital inflows from abroad underpinned investments in these sectors, and these same capital inflows enabled Jamaica to finance increasing deficits on the current account of the balance of payments. The decade of the sixties was, therefore, a period of high investment and rising incomes. However, the growth of other sectors was less buoyant. To begin with, 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, import-substituting manufacturing, mainly of consumer goods, continued to grow under high levels of effective protection. This, in combination with liberal tax incentives and a high industrial wage structure led to the development of a sector which was excessively capital intensive, provided relatively little employment and was heavily dependent on the import of intermediate goods. The failure to foment agricultural and manufacturing production for exports made bauxite and alumina exports, which already accounted for over one-half of total exports in 1966, rise to about 70% by 1972. Finally, the pattern of development of the economy failed to narrow the extreme inequality of Jamaica’s income distribution. Thus, by the early 1970s, Jamaica was suffering from serious unemployment and social tensions.

1/ Taken from Part I of the Jamaica Program Loan President’s Report of November 21, 1977.
4. The Government which came to power in 1972 was 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 a subsidiary, albeit important, goal. This strategy created an atmosphere of uncertainty with immediate result of reduced investment activity by the private sector.

5. The implementation of the structural changes sought by the Government was further complicated by unforeseen external factors. The completion of a major investment cycle in tourism and mining in Jamaica resulted in a sharp drop in foreign capital inflows beginning in 1972. This was followed by the increase in petroleum and other commodity prices in late 1973 which resulted in severe deterioration in the country's terms of trade. Moreover, the world recession of 1974-75 had serious repercussions on Jamaica's tourism and mining sector receipts. The Government was able to counteract the effects of these unfavorable developments by the introduction of a bauxite levy, which yielded an additional US$150 million in foreign exchange receipts. This, together with the near doubling of international sugar prices and the unprecedented level of external medium- and long-term borrowing by the public sector in 1975 rescued Jamaica from a serious balance of payments crisis. While the bauxite levy and the temporary upsurge in sugar prices did not resolve the underlying weaknesses in the economy, they did provide a temporary respite. Thus, despite a loss of foreign exchange reserves of US$82 million in 1975, the economic situation did not become critical until 1976.

The Economic Crisis of 1976

6. The balance of payments situation deteriorated sharply in 1976. Serious labor problems in the mining sector together with soft world demand for aluminum reduced total bauxite and alumina export receipts by about 14%. Receipts from sugar exports in 1976 were only 40% of the 1975 level, owing to much lower international prices for sugar. Moreover, as internal security became more precarious, 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 19% drop in merchandise imports, the current account balance deteriorated further in 1976, with the deficit reaching US$295 million. (See Annex I for details).
7. Adverse development on capital account made the balance of payments situation even more difficult. Foreign commercial bank lending to Jamaica practically ceased, and capital flight accelerated owing to the prevalence of political and economic uncertainty. There was a net outflow of direct private investment funds for the third consecutive year. A large part of the credits received by the public sector were government-to-government loans from Jamaica’s CARICOM partners (Trinidad and Tobago, Barbados and Guyana), Venezuela and Canada. The IMF extended a total of US$65 million in credits to Jamaica under its oil and compensatory facilities. Despite these credits, the country suffered a net reserve loss in 1976 of US$268 million. By December 21, 1976, the gross official reserves had fallen to US$41 million, equivalent to two weeks of imports, and the authorities were forced to close the foreign exchange markets for a period of two weeks.

8. 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 the Government introduced social welfare schemes to ameliorate the effects of high unemployment. At the same time, Government investment expenditure rose rapidly as the Government tried to carry out its ambitious program. Thus, Government expenditure in 1976/77 \( ^1 \) increased by 20% over 1975/76 (see Table 1), the bulk of the increase being transfers to public entities, as well as new grants and loans to industry, construction and tourism, in an effort to stimulate the lagging economy. Concomitantly, current revenues were 5% below the 1975 level, because of shortfalls in customs duty and consumption tax receipts resulting from the import cutbacks. As a consequence, the overall deficit of the Central Government increased to the equivalent of 18.6% of GDP, compared to a figure of under 11% in 1975/76. Since this coincided with a modest reduction in foreign financing, there was unprecedented reliance on financing from the banking system equivalent to 11.6% of GDP.

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\(^1\) Fiscal year runs from April 1 to March 31.
Table 1: CENTRAL GOVERNMENT OPERATIONS  
(J$ million)

<table>
<thead>
<tr>
<th></th>
<th>1973/74</th>
<th>1974/75</th>
<th>1975/76</th>
<th>Provisional</th>
<th>1976/77</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Revenues</td>
<td>346.9</td>
<td>513.5</td>
<td>639.4</td>
<td>605.1</td>
<td></td>
</tr>
<tr>
<td>Current Expenditures</td>
<td>340.2</td>
<td>493.2</td>
<td>614.1</td>
<td>758.0</td>
<td></td>
</tr>
<tr>
<td>Current Account Surplus</td>
<td>6.7</td>
<td>20.3</td>
<td>25.3</td>
<td>-152.9</td>
<td></td>
</tr>
<tr>
<td>Capital Revenue</td>
<td>0.8</td>
<td>4.0</td>
<td>1.3</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>102.9</td>
<td>211.4</td>
<td>304.8</td>
<td>359.2</td>
<td></td>
</tr>
<tr>
<td>Extrabudgetary Operations</td>
<td>-4.0</td>
<td>+0.5</td>
<td>-14.8</td>
<td>-13.6</td>
<td></td>
</tr>
<tr>
<td>Overall Deficit</td>
<td>-99.4</td>
<td>-186.6</td>
<td>-293.0</td>
<td>-524.1</td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td>99.4</td>
<td>186.6</td>
<td>293.0</td>
<td>524.1</td>
<td></td>
</tr>
<tr>
<td>External Borrowing (net)</td>
<td>53.9</td>
<td>55.2</td>
<td>99.4</td>
<td>83.2</td>
<td></td>
</tr>
<tr>
<td>Domestic Banking System</td>
<td>18.1</td>
<td>43.2</td>
<td>114.9</td>
<td>325.9</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>27.4</td>
<td>88.2</td>
<td>78.7</td>
<td>115.0</td>
<td></td>
</tr>
<tr>
<td>Overall Deficit as % GDP</td>
<td>5.6</td>
<td>8.3</td>
<td>10.8</td>
<td>18.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

9. As a consequence of the decline in bauxite production, poor tourism performance and the adverse effect of import restrictions on industrial imports, real GDP fell by almost 7% in 1976. This followed three successive years of negative real growth rate. The only major sectors which exhibited positive growth were agriculture and government services. Unemployment, a chronic problem in Jamaica, increased to about 24% from about 21% in 1975. An impression of the deteriorating macroeconomic situation can be gained from Table 2 below.
Table 2: KEY MACROECONOMIC INDICATORS, 1972-76
(Percentages)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth Rate</td>
<td>8.5</td>
<td>-2.6</td>
<td>-2.1</td>
<td>-1.0</td>
<td>-6.9</td>
</tr>
<tr>
<td>Population Increase</td>
<td>1.9</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.2 /a</td>
</tr>
<tr>
<td>Real Per Capita GDP Increase</td>
<td>6.5</td>
<td>-4.5</td>
<td>-3.7</td>
<td>-2.9</td>
<td>-7.8</td>
</tr>
<tr>
<td>Consumption/GDP</td>
<td>77.5</td>
<td>75.7</td>
<td>77.6</td>
<td>80.6</td>
<td>89.5</td>
</tr>
<tr>
<td>Investment/GDP</td>
<td>27.9</td>
<td>31.6</td>
<td>26.6</td>
<td>26.3</td>
<td>17.1</td>
</tr>
<tr>
<td>Cross Domestic Savings/GDP /b</td>
<td>22.5</td>
<td>24.3</td>
<td>22.4</td>
<td>19.4</td>
<td>10.5</td>
</tr>
<tr>
<td>Central Government Savings/GDP /b</td>
<td>1.7</td>
<td>0.4</td>
<td>11.0</td>
<td>10.0</td>
<td>-5.4</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>23.2</td>
<td>22.5</td>
<td>21.5</td>
<td>21.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>5.4</td>
<td>17.6</td>
<td>27.2</td>
<td>17.4</td>
<td>9.8</td>
</tr>
</tbody>
</table>

/a The lower figure for population increase reflects the higher level of net emigration in 1976.
/b Fiscal years.

Source: Department of Statistics; Ministry of Finance

The Government's Response to the Crisis

10. In January of 1977, after having been re-elected, the Government began to take measures to alleviate the country's severe economic problems. It introduced new revenue measures expected to yield J$80 million annually. New wage guidelines were instituted under which wage and salary increases in the private sector and in government-owned enterprises that are run as commercial establishments would be granted (as contracts fall due) only for those employees whose real wages were below the June 1973 level. This applied to only a small part of the labor force. Even in these cases, wage increases would not be permitted to exceed a flat J$10 per week for the 12-month period that began July 1, 1977. Moreover, the wage freeze for employees of the Central Government and Statutory Boards, which was due to expire in March 1977, was extended until March 31, 1978. On the external side, there was a sharp reduction in the ceiling for the issuance of import licenses and tightening of restrictions on payments for certain invisibles. In addition, a dual exchange rate system was instituted in April. Under this system, a new "special" exchange rate of US$1.00=J$1.25 was established for all transactions except essential imports and transactions of the Government and bauxite sector, which remained at the old ("basic") exchange rate of US$1.00=J$0.909. This implied a weighted average devaluation of about 24%. 1/ Concurrently, the Government unveiled an Emergency Production Plan (see paras. 28 and 29).

1/ On October 21, there was a further depreciation of the "special" rate to US$1.00=J$1.28, implying a weighted average devaluation of about 26%.
setting out targets and strategies for increasing production. Finally, in May, a fiscal budget for 1977/78 was adopted which called for a sharp reduction in the deficit, primarily through restraints in expenditures.

11. In July 1977, the Government adopted a comprehensive program covering a period of almost two years. This program was the basis for reaching agreement with the IMF on a Stand-by arrangement, which was approved by the Fund's Executive Directors in August. Full adherence to the program would make Jamaica eligible to draw a total of SDR 64 million (US$74 million) over this period, or into the fourth credit tranche. The key elements of the program are:

(a) ceilings have been established on net credit to the public sector from the banking system;

(b) limits have been established on the net domestic assets of the Bank of Jamaica to ensure that the monetary and credit program of the Government is compatible with the planned improvement in the balance of payments;

(c) limits have been established on the authorization of new foreign indebtedness of the public sector to ensure that the terms of foreign borrowing are appropriately related to the country's debt servicing capability;

(d) quarterly targets have been established for increases in net international reserves during 1977 and 1978;

(e) provisions for orderly management of payments arrears; and

(f) revisions in the flexible exchange rate system and avoidance of any further intensification of import restrictions.

12. Under the IMF Stand-by arrangement, Jamaica has already drawn the first tranche of SDR 19.2 million (US$22 million). The first review of the progress on the quarterly targets took place in October/November 1977, when a Bank staff member accompanied the Fund mission to Jamaica. On the basis of this review, it was concluded that Jamaica had fulfilled all the quarterly criteria of the program and appeared likely to remain in compliance with the credit ceilings, which are being monitored by the Fund on a weekly basis, on the date of the request for the second drawdown of funds. The request for this drawdown, amounting to SDR 9.6 million (US$10.5 million) may only take place after December 1, 1977. The second quarterly review of performance is scheduled for February, 1978 as prelude to the third drawdown. Eligibility for this drawing may only be established and funds drawn after March 1, 1978.

13. The Government's economic program reflects its decision to adopt the measures required to cope with the serious economic situation, in spite of the political difficulties associated with such a course of action. The program is most comprehensive including not only monetary, fiscal and balance of payments
aspects, but also incomes policy and incentives for increasing production.
Some of the key measures have already been adopted, and the fiscal budget is
consistent with the program. It is likely that the Government will be able
to achieve its goals and thus establish its eligibility for the second draw-
down under the IMF arrangement. We will closely monitor progress under
the Government's economic program in cooperation with the Fund.

14. The program targets established for third drawing in March 1978
require the Government to maintain a tight stabilization program. Between
December 1976 and May 1977, the consumer price index increased by 4.7%,
whereas over the two-month period of June and July alone the increase has
been 3.5%. In view of these price increases, the Government has agreed to
union demands for the abolition of J$10 a week maximum guideline, and has
also relaxed somewhat other restraints related to inter-industry wage
comparability and to the functioning of the wage tribunals. These concessions
are manageable since increases in real wages may not exceed the 1973 level.
However, further relaxation of the Government's incomes policy could jeo-
dardize the achievement of the main objectives of the economic program.
On the fiscal side, the wage concessions have been limited to public sector
employees earning under J$4,500 a year. This is intended to be an exception
to the public sector wage freeze which is expected to continue until
March 31, 1978. Nevertheless, it will add an estimated J$10-12 million to
expenditures in 1977/78 and a further J$40-50 million in 1978/79. This,
together with an external financing shortfall which was unexpected by the
Government and the IMF (see para. 16), will make the full achievement of the
program objectives rather difficult. Nevertheless, the Government has
repeatedly stated its firm commitment to carry out the program and to take
whatever measures necessary to ensure full compliance with this program.

15. While Fund negotiations were under way, the Government started nego-
tiations with bilateral and multilateral sources as well as with foreign
commercial banks for a package of extraordinary external financing for 1977
and 1978 (see Table 3). The financing plan was based on a detailed analysis
of the size of the external resource gap and was premised on the Government's
ability to restrict the current account deficit to US$120 million in 1977,
to reduce it to US$77 million in 1978 and to nearly eliminate it by 1980.

16. A loan of US$49 million had been expected from Trinidad and
Tobago. It is not clear, at present, whether this will be obtained.
External financing is, therefore, more likely to be about US$107 million
during 1977 instead of US$156 million anticipated earlier. This will imply
a further reduction in imports by an estimated US$10 million. In addition,
no increase in reserves can now be expected, compared to the earlier pro-
jected increase of US$30 million. Prepayment of the bauxite levy by the
bauxite companies should provide the remaining resources necessary to limit
the new reduction in imports to US$10 million. This reduction of imports
will clearly imply somewhat lower production and higher unemployment, but
the situation should still be manageable.
Table 3: EXTERNAL RESOURCE GAP AND ITS FINANCING

(US$ million)

<table>
<thead>
<tr>
<th></th>
<th>As projected in June 1977</th>
<th>As projected now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Account Deficit</td>
<td>-120.0</td>
<td>-77.0</td>
</tr>
<tr>
<td>Amortization Payments</td>
<td>-80.8</td>
<td>-107.0</td>
</tr>
<tr>
<td>Increase in Reserves (-increase)</td>
<td>-30.0</td>
<td>-30.0</td>
</tr>
<tr>
<td>Total Financing Requirements</td>
<td>-230.8</td>
<td>-214.0</td>
</tr>
<tr>
<td>Financing</td>
<td>230.8</td>
<td>214.0</td>
</tr>
<tr>
<td>Direct Foreign Investment (net)</td>
<td>-8.0</td>
<td>-10.0</td>
</tr>
<tr>
<td>Disbursements from Prior Commitments</td>
<td>70.0</td>
<td>80.0</td>
</tr>
<tr>
<td>IMF Drawings</td>
<td>32.5</td>
<td>45.0</td>
</tr>
<tr>
<td>Extraordinary Financing</td>
<td>156.0</td>
<td>75.0</td>
</tr>
<tr>
<td>(USA)</td>
<td>(30.0)</td>
<td>(30.0)</td>
</tr>
<tr>
<td>(Venezuela)</td>
<td>(27.0)</td>
<td>(-)</td>
</tr>
<tr>
<td>(Trinidad and Tobago)</td>
<td>(49.0)</td>
<td>(-)</td>
</tr>
<tr>
<td>(Commercial Banks)</td>
<td>(40.0)</td>
<td>(25.0)</td>
</tr>
<tr>
<td>(Proposed IBRD Program Loan)</td>
<td>(10.0)</td>
<td>(20.0)</td>
</tr>
<tr>
<td>Capital Transactions net.f.</td>
<td>-19.7</td>
<td>29.0</td>
</tr>
</tbody>
</table>

\[a/\] This projected increase in reserves was premised on the availability of a US$49 million loan from Trinidad and Tobago. This financing has not yet materialized. The resulting gap will be covered partly by a further cut in imports and partly by repayment of bauxite levy. No change in reserves is now expected in 1977 compared to US$30 million projected earlier.

\[b/\] Includes US$29 million under the current Stand-by Arrangement and US$16 million under supplementary financing. The latter is, however, highly tentative at the moment.

\[c/\] The ability of the Government to receive US$10 million of disbursements from the proposed loan during CY77 will depend on when the loan is signed, when it will become effective and how rapidly requests for reimbursement are submitted to the Bank.

\[d/\] Includes errors and omissions.

\[e/\] Includes prepayment of bauxite levy of approximately US$10 million.

Source: Ministry of Finance and Bank of Jamaica.
17. This underscores the importance of the proposed Bank program loan. As can be seen from Table 3, the proposed loan is an integral part of the financing package. The impact of the loan would be significant. Owing to the foreign exchange constraints of the last few years, the level of capital and intermediate goods imports of agriculture and industry (excluding the bauxite/alumina sector) have been reduced to only US$370 million, compared to US$450 million in 1976 and US$590 million in 1975. In real terms, this implies that such imports have been nearly halved. The proposed program loan, representing about 8% of these required imports at current projected levels, would play an important role in helping to maintain employment and production at tolerable levels.


18. Jamaica’s balance of payments and fiscal situations have generally improved during 1977, reflecting both improved international demand for bauxite/alumina and the effects of the policy measures which were introduced to deal with the crisis.

19. There has been a dramatic improvement in the balance of payments during the first half of 1977. Over this period, the country’s trade balance deficit was reduced to only US$4 million, compared to US$164 million for the corresponding period in 1976. Merchandise exports totalled US$376.6 million, compared with US$288.6 million during the first six months of 1977, an increase of about 30%. The gains have been mainly due to the recovery (in terms of both prices and production levels) in the bauxite/alumina sector. At the same time, the import restrictions have produced a decline of about 16% in merchandise imports during the first half of the year, compared to the corresponding period in 1976.

Table 4: ACTUAL TRADE FIGURES FOR JANUARY-JUNE, 1977

<table>
<thead>
<tr>
<th>US$ million</th>
<th>Jan-June 1976</th>
<th>Jan-June 1977</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports (fob)</strong></td>
<td>288.6</td>
<td>376.6</td>
<td>30.5</td>
</tr>
<tr>
<td><strong>Imports (cif)</strong></td>
<td>452.4</td>
<td>380.5</td>
<td>-15.9</td>
</tr>
<tr>
<td><strong>Trade Balance</strong></td>
<td>-163.8</td>
<td>-3.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bank of Jamaica.

20. For the year as a whole, it is estimated that the trade deficit will amount to about US$55 million as import payments are typically higher for the second half of the year in Jamaica. With respect to the rest of the current account, tourism is estimated to gross US$70 million. These earnings, however, are more than offset by interest payments and other factor and non-factor service payments. On balance, the current account deficit for 1977
is estimated at US$110 million. This compares with the corresponding figure for 1976 of US$295 million. This would imply no loss of international reserves during 1977, in sharp contrast to the loss in reserves of US$268 million during 1976.

21. The situation has also improved on the fiscal side. The actual expenditures during the first half of the fiscal year have been in line with the budget. To ensure that expenditures remain within targeted amounts, the Government has adopted strict controls. All major outlays are being audited at the Ministry of Finance, and monthly expenditure limits have been assigned to various government ministries and departments. However, revenue collections are projected to be slightly lower than earlier expectations, primarily because of a projected revenue shortfall of J$50 million from the Exchange Stabilization Fund. This, together with the apparent nonavailability, for the time being at least, of the anticipated US$49 million loan from Trinidad and Tobago, will require further fiscal adjustments in the future. On the whole, however, the Government’s fiscal policies have been accomplishing the objective of reducing the disequilibrium in public finances. It is projected that the overall deficit of the Central Government will decrease from 18.5% of GDP in the last fiscal year to about 9% in 1977/78.

22. These accomplishments in the fiscal and balance of payments areas have, however, been at a heavy cost in terms of output and employment. The drastic reduction of imports has led to shortages of raw materials and intermediate goods which have, in turn, led to the closure or reduced activity of many distributing and manufacturing firms. There is a massive underutilization of capacity in the productive sectors, in part because of external conditions and in part because of the restriction on imports and domestic demand. The bauxite/alumina sector is currently operating at about 75% capacity. In the manufacturing sector, capacity utilization, based on 1.5 shifts per day, is about 33%. Unemployment is expected to rise to about 30% by the end of 1977, from the already high level of 24% at the end of last year. Real GDP is projected to decline by no less than 10%. Moreover, the impact of devaluation on domestic prices has started to be felt. Whereas consumer prices increased by about 10% during 1976 (and maintained the same rate during the first five months of 1977), they are projected to increase by about 15% for 1977 as a whole.

Growth and Balance of Payments Prospects Beyond 1977

23. It is projected that the current account deficit can be reduced to only US$6 million by 1980, from a projected level of US$110 million for 1977. However, this will imply a further decline in GDP per capita in 1978 and only modest recovery in the next two years. The main source of better performance on the exports side is expected to be the bauxite/alumina sector where a return to the more normal level of capacity utilization and good price prospects are projected to result in export receipts from the sector of about US$915 million, compared to about US$590 million in 1977, a nominal increase of about 55%. Sugar receipts are expected to increase by about US$17 million between 1977 and 1980, 80% of this increase being due to production increases.
In addition, the devaluation of the Jamaican dollar is expected to have a significant effect on the country's other merchandise exports and tourism. Growth in tourism will also depend on the maintenance of favorable economic conditions in the North American countries and Jamaica's ability to improve its image of security for the international tourist. On the whole, the export of goods and nonfactor services are projected to increase from US$1,036 in 1977 to US$1,703 in 1980, a nominal increase of about 64%. This projected improvement in the export receipts should increase the country's import capacity, and these imports are projected to increase by about 50% in nominal terms over the corresponding period.

24. Over the three-year period 1978-80, the average annual current account deficit is projected to be about US$40 million. Direct foreign investment (net) is expected to continue to be negative, the net outflow averaging US$10 million annually. In addition, amortization payments on existing and new debt to be contracted are expected to average US$107 million annually over 1978-80. Thus, gross annual external capital requirements are estimated to average about US$160 million. Moreover, the present low level of gross foreign exchange reserves—about 15 days days of imports—is unsafe and needs to be increased. An increase in net reserves averaging about US$50 million annually would, because of the need to reduce the Bank of Jamaica's foreign liabilities, probably not increase gross reserves to more than a single month's imports.

25. The above external financing requirements of about US$210 million annually could be met by gross disbursements on public and publicly guaranteed loans and credits averaging about US$190 million annually, supplemented by IMF financing averaging about US$20 million annually.

26. Jamaica's ability to generate external capital inflows of the magnitude indicated above will be largely predicated on an improved capacity to implement projects and to mobilize sufficient public sector savings as domestic counterpart for project financing. In this manner, public sector investment financing would rely on medium- to long-term loans and credits with an average maturity in excess of 10 years. (At the end of 1976, over 40% of the debt outstanding and disbursed had an average maturity of under 10 years.) As a result, debt service would not present an unmanageable problem. The estimated total debt outstanding and disbursed at the end of August 1977 amounted to approximately US$1.35 billion. Of this amount, about US$450 million was direct public debt, US$400 million was government-guaranteed and the remaining US$500 million was private nonguaranteed debt. The public debt service ratio, which is currently estimated at 13.5%, is projected to increase further to about 14% by 1978. Thereafter, however, it is expected to decline steadily to a level of about 10% by 1980. Nonguaranteed private debt is not expected to change significantly over the next several years.

27. Jamaica has the resources to enable it to both sustain positive rates of real 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. Details on the main sectoral prospects over the next few years are provided in Part II. Notwithstanding these favorable developments, however, growth in real GDP during 1978 is projected to be negligible primarily because of the continuing constraint on the capacity to import projected for the year. Only beyond 1978 can a real growth rate of about 5% be sustained and some amelioration of the critical unemployment problem be expected.
61. To date the Bank has made 15 loans in Jamaica totalling $152.4 million after cancellations. Of this amount about $81.5 million (53%) has been for infrastructure investments in transportation, electric power, water supply and sewerage; the remainder has gone into agriculture (16%), education (15%), sites and services (10%), and population and nutrition (6%). 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 September 30, 1977 and notes on the execution of projects in Jamaica.

62. Bank lending in Jamaica has been principally aimed at providing transfers of long-term external capital to help finance the foreign exchange component of high priority public sector investment projects. 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. Jamaica’s program lending needs have been assessed in close coordination with IMF and after determining the availability of other sources of external capital. Bank lending supports Government programs designed to increase production and employment, to achieve a wider distribution of the benefits of economic growth, and to improve the country’s economic infrastructure where inadequate facilities are presently constraining development. It is also an important objective of Bank lending 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.

63. After a lull in Bank lending in 1972/73—resulting largely from institutional constraints and slow project preparation—the pace of Bank operations picked up in FY74 and FY75, with an increased emphasis on projects in the social sectors. Slow project preparation and, later in the period, unsettled economic conditions reduced Bank lending to one loan each in FY76 and FY77. The current year lending program includes an $18 million loan for a proposed Sugar Factory Rehabilitation project and a proposed $20 million Second Power project for electric power transmission and distribution. These loans are to be presented to the Executive Directors at about the same time as the proposed loan.

64. In the last several months, there has been some project implementation difficulties with several of the Bank-financed projects (see Annex II). They have been caused by the deterioration in general economic conditions (there has been a particular problem in maintaining subloan repayments in intermediate credit operations), the limitations of counterpart availability of local currency funds required for project expenditure arising from fiscal restraints and the general preoccupation of Jamaica’s economic managers with the economic crisis. However, the Government is aware of these problems and is adopting measures directed toward solving them.

1/ Taken from Part IV of the Jamaica Program Loan President’s Report of November 21, 1977.
65. The most recent Bank loan, for a rural development project (Loan No. 1464), was approved by the Executive Directors on June 23, 1977. 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 that year. It is estimated that these percentages will not vary significantly during 1977.

66. In line with the Government's priorities and development strategy, Bank project lending will place increasing emphasis on projects to promote exports, stimulate import substitution, increase employment and raise the living standards for those in the lower economic strata. The Sugar Factory Rehabilitation project in this year's lending programs addresses some of the key problems in Jamaica's second largest export-earning industry. The proposed loan for Small Scale Enterprise is in an advanced state of preparation and will assist the emerging entrepreneur and small businessman. The project will have significant employment and social benefits. In the coming years, the Bank hopes to support the Government's efforts in the agricultural sector with the possible financing of projects for agricultural credit, irrigation, forestry and rural development. Identification and preparation work has begun on all of these projects.

67. 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.
## JAMAICA

### Five Year Lending Program

<table>
<thead>
<tr>
<th>Project</th>
<th>FY78</th>
<th>FY79</th>
<th>FY80</th>
<th>FY81</th>
<th>FY82</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Development II</td>
<td></td>
<td></td>
<td></td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>Agricultural Credit II</td>
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<td>15.0</td>
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<td></td>
</tr>
<tr>
<td>Forestry</td>
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<td></td>
<td>15.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation</td>
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<td></td>
<td></td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Sugar Rehabilitation</td>
<td>18.0</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education III</td>
<td></td>
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<td>14.0</td>
<td></td>
</tr>
<tr>
<td>Power II</td>
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<td></td>
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<td>Program Loan</td>
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<tr>
<td>Small Scale Enterprise I</td>
<td></td>
<td></td>
<td>7.0</td>
<td></td>
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<tr>
<td>Highway Rehabilitation</td>
<td></td>
<td></td>
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<td></td>
<td>15.0</td>
</tr>
<tr>
<td>Urban Development</td>
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<td></td>
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<td>10.0</td>
<td></td>
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<tr>
<td></td>
<td>68.0</td>
<td>7.0</td>
<td>40.0</td>
<td>24.0</td>
<td>30.0</td>
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<tr>
<td>Total FY78-82</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Program: $169 million (11 loans)
Biographical Notes

Prime Minister Michael Manley

Mr. Michael Manley, aged 52, was educated at the Jamaica College and subsequently at London University where he took a B.Sc. (Econ.). He is the son of the late Norman Washington Manley who was the founder of the People's National Party (PNP), and was Chief Minister of Jamaica from 1955-59, and Prime Minister from 1959-62. Mr. Manley is a great admirer of his father, one of Jamaica's five National Heroes. He was a free-lance journalist with the British Broadcasting Corporation during 1950-51. On return to Jamaica he joined the PNP and was elected to its Executive in 1952. At the same time he began his close association with the National Workers Union (NWU) and was the moving light in the Alcan strike in 1953 which resulted in a 300% increase in the industry's wages. The contract negotiation set a blue print for future negotiations in the industry and did much to increase the NWU membership to rival that of the Bustamante Industrial Trade Union (BITU). In 1959 he organized a strike in the sugar industry which led to the establishment of the Goldberg Commission of Enquiry and a record sugar workers wage award. In 1955 he was appointed Island Supervisor and elected first Vice President of the NWU. Although he was appointed a member of the Senate in 1962, Mr. Manley eschewed elective politics until 1967 so as to avoid trading on his father's name. In that year he was elected by the narrow margin of 43 votes to the Central Kingston Constituency. Following a landslide victory for the PNP in February 1972, achieved in a great measure by his personal magnetism and active campaigning, he became the first PNP Prime Minister since the island's independence in 1962.

Mr. Manley has two daughters and a son from two former marriages. In June 1972, the Prime Minister married his third wife, the former Miss Beverly Anderson, a radio and television personality. Mr. Manley's hobbies include cricket and tennis. He is keen on classical and jazz music with a personal record library of over 1,000 albums.

Mr. Manley is an energetic leader, a "man of ideas" rather than a technocrat. The emphasis on socially progressive measures which has characterized his administration, bears the stamp of his own personality. He has also been greatly influenced by the thinking of Julius Nyerere although Mr. Manley has repeatedly repudiated the concepts of a one-party state as an appropriate political solution for Jamaica. Mr. Manley believes that the key to development for Jamaica is mobilization of the talents of the whole country in what he describes as the "politics of participation." At the same time he passionately feels that improvement can only be achieved by a transformation of society which implies fundamental change in Jamaica. As he states in his recently published book, The Politics of Change - "Man can adjust by tinkering but he cannot transform. Nothing less than transformation can provide answers to the dilemmas within which we are currently trapped."
Under his initiative Jamaica has improved its relations with the Soviet Union and China and has established closer ties to Cuba as part of a design for more active and independent foreign policies. Mr. Manley's opponents have attacked him and his Party as being too leftist, accusing them of leading the country towards Communism. He has declared, however, his belief in a mixed economy and a democratic system in Jamaica. Because his father and the Party strongly advocated Federation of the West Indies during the 1950s (the break-down of the Federation and subsequent withdrawal of Jamaica from it was a major factor in the defeat of the PNP during the 1962 elections), it was thought that the question of Federation might be revived when Mr. Manley came to power. Mr. Manley has, however, rejected political union for the Caribbean, while advocating, when the circumstances are favorable, closer economic cooperation.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Enrique Lerdau, Director, LC2

DATE: December 14, 1977

SUBJECT: JAMAICA – Supplementary Briefing Memorandum for the Visit of Prime Minister Michael Manley on December 15

1. On behalf of Mr. Krieger, I want to add to paragraph 2 of his memorandum of December 12 concerning Mr. Manley's visit and the possibility of his discussing regional issues arising from the ongoing Conference on Economic Development in the Caribbean. I should like to inform you that all the speakers on the first day of the Conference, representing both donors and recipients, have indicated their support for greater regional cooperation in providing economic assistance to the Caribbean and for the establishment of some type of coordinating mechanism. The Jamaican delegation has not yet spoken. We believe, however, that any statement that they make will be in support of the Conference objectives. Thus, while we have not yet reached the stage of the Conference in which definite proposals are agreed upon, the meeting has been quite successful so far.

2. Contrary to what we had heard, so far no one has spoken in favor of a debt moratorium. Nevertheless, it might be a good idea to mention to Mr. Manley that this would be a very counter-productive proposal and one which, especially, is not in the long-term interest of Jamaica.

cc: Messrs. Knapp
    Krieger
    Gonzalez-Cofino, Div. Chief, LC2DC

MAyub/RKanchuger:sct
Salient Points of Discussion of Jamaican Program Loan
During December 13 Board Meeting

The Jamaica Program Loan was presented to the Board of Directors by Mr. Kanchuger. During the discussion, the following points emerged. Strong support for the loan was expressed by the following speakers (in order):

Cassou
Madinga
El Naggar
Bilget
Sen
Ryrie
Arsaelsson

Dixon
Drake
Franco
Razafindrabe
Looijen
Thahane
Johnston

On special conditions for disbursement, the following comments were made (in order of speakers):

CASSOU: Recalled the last Board discussion on program lending (April 21, 1977) during which the French chair supported the idea of the need for links between the Bank's conditions and IMF requirements in the case of program loans to a country which requests a stand-by arrangement from IMF. Noted with satisfaction the close Bank/IMF cooperation on the present loan and hoped to see such cooperation between both Bretton Woods institutions continue. Also noted that special precautions had been taken to ensure that the program loan not be used by Jamaica to avoid fulfilling its commitment vis-a-vis the Fund. Hoped that the Bank's requirements for a Jamaican public investment program would closely parallel those of the Fund.
EL-NAGGAR: Greatly concerned over link between disbursement of this loan and IMF conditionality for drawing on second tranche of its stand-by arrangement. Like Cassou, referred to April 21 discussion on program lending and recalled that the French position had been supported by only one other Executive Director. General sense of that discussion had been opposed to such a formal linkage between program loan disbursements and IMF stand-by arrangements. Certainly some coordination should exist but that was a far cry from making it a condition for disbursement of a Bank loan. Noting his concern that many developing countries feared the stiff IMF conditions, he asked:

- Was the present loan a "first"?
- Did it set a precedent?
- Had the number of countries which had met the stiff eligibility conditions for drawing on the higher tranches of IMF stand-by arrangements changed from the April tally of six (four industrial countries and two developing ones)?

Stated that he opposed formal linkage because program loans served a different purpose than IMF tranche drawings: former aimed at correcting structural imbalances whereas latter were intended to help stabilize short-term payments imbalances.

BILGET: Supported El-Naggar's position. Stated organic linkage between performance conditions of IMF stand-by arrangements and disbursements of program loans was not desirable because it relinquished authority for releasing proceeds of the loan to the IMF Management and Board, with consequent problems should IMF Board decide at some future date performance criterion were not being met. Considered that acceptance by a country of IMF conditions for a stand-by arrangement was an indication of that country's willingness to take certain balance of payments adjustment measures which were, in turn, essential for further economic development.
SEN: Shared El-Naggar's and Bilget's concern about tying loan with second tranche conditions. Stated: "We must declare the independence of the Bank Board from that of the Fund. What we are doing here is subordinating ourselves to them. We should not set any precedent which would limit our freedom of action." Added that the views of the majority of the Executive Directors on program loan/IMF links, as expressed during the April 21 discussion, had not been respected by the staff, which had apparently given more weight to the French view. This was highly offensive to the Directors and he strongly objected. Also stated the Jamaica loan should not have been brought to the Board in its present format; why not have made movement towards effective stabilization (without specifying performance of IMF conditions) sufficient for Bank disbursement of funds?

RYRIE: Had same grave doubts as El-Naggar on such a strong formal link based on adherence to performance criteria of Fund tranche drawings for disbursement of Bank program loan. Puts Jamaican Government in extraordinary position in which they are being treated as if they could not be trusted to carry out their agreement with the Fund. Would prefer not to see this in the agreement. Certainly would not want this case to be repeated.

ARSAELSSON: Agreed with Ryrie, Sen, El-Naggar.

DIXON: U.S. Government strongly supports this program loan and its strong link to the IMF arrangement.

DRAKE: Commended staff and Management of Bank for what they had done to help Jamaica in a difficult situation: This was without prejudice to the view that, in general, the Fund should have been informed.
FRANCO: Glad linkage was not precedent-setting.

LOOIJEN: Said loan looked like a supplemental facility being given by the Bank to the IMF by adding a long-term tranche to shorter Fund tranches. Should not be precedent-setting for future program loans.

THAHANE: Strongly objected to surrender by Bank of its independent judgment to the Board of the Fund. Suggested that in the future, conditions of disbursement be made legally subject to approval by the Bank.

JOHNSTON: Reiterated his Australian authorities' opposition in principle to program loans because they are generally undistinguishable from short-term drawings on the Fund. His authorities preferred to maintain a clear distinction between Fund money and Bank money. However, since Bank program loans were going to come before the Board from time to time, it was felt that there should be tie-ins with IMF tranche arrangements. For this reason, he was not objecting to this particular loan to Jamaica.

In responding to the various comments and questions from Executive Directors, Mr. Knapp noted that Bank program loans were aimed at supporting a country's development program. In the case of Jamaica, however, Bank Management felt that, unless the Fund's stabilization program were carried out, there would be no basis for a development program in Jamaica. He stated that one possible course of action would have been to wait until the IMF's program had been carried out before even considering lending to Jamaica, but the country was very anxious to get this commitment from the Bank, even on a contingent basis. Without such contingencies, the Bank would not have agreed to the loan at all. He stressed that the agreement had been worked out to the full satisfaction of all the parties.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Dudley R. Clarke

THROUGH: William Clark

SUBJECT: Prime Minister Manley's Visit

DATE: December 8, 1977

A Brief in connection with Prime Minister Manley's visit to
you on December 15 is attached.

Attachment
Prime Minister Manley's Visit on December 15, 1977

Apart from the brief you will be receiving from the Latin American and Caribbean Department, Mr. William Clark has suggested that you might find useful brief background notes on the following:

a) Prime Minister Manley's relations with Cuba;
b) Prime Minister Manley's outlook towards the Caribbean; and
c) Prime Minister Manley as a Third World leader - his concerns and preoccupations.

A. Manley's Relations with Cuba

Manley's Cuban foreign policy has been, perhaps, the most sensitive and controversial element in Jamaican Government policy since assuming office in 1972. It has had an impact both on the domestic economy (affecting business confidence) and externally with an effect on US relations (particularly before the Carter Administration).

This begs the question: "Why the flirtation with Cuba? Is this in Jamaica's national interest?" In Manley's own words - "The Cuban relationship is very, very fundamental to us. It is a non-negotiable item in our Agenda." Again, Manley explains - "One, Cuba is our closest neighbor. Two, Cuba is a member of the Third World like us. Three, Cuba fights at our side for changes in the world economic system." It is the depth of Manley's feeling about the Third World which strengthens the Cuban relationship. For Manley, the "iron test" of Third World membership is the position taken on Cuba.

On a personal level, Manley has the greatest admiration for Castro as a national hero who has thrown off the imperialist yoke and set his country on a long neglected path of development described by him as "a very brave and brilliant social and human experiment". Given what many in Manley's Party regard as the failure of the free enterprise system to deal with the Jamaican economic problem, Manley has looked closely at the Cuban model of development. Technical assistance has been obtained from Cuba in agriculture (mini dams and livestock raising) and construction (school buildings) as well as in the health services (doctors).

Manley insists that Castro is a highly principled leader who would not interfere in the internal affairs of another country unless so requested by the legitimate government of that country. At the same time he would explain that Castro, as an internationalist, considers himself as having a duty to assist countries who should seek his assistance, when called upon, for example Angola. Manley considers that he has the personal
support of Fidel Castro which does not extend to the extreme left wing members of his Party. This seemed to have been confirmed during what is regarded as the highly successful Castro visit (October) when the leaders of the extreme left played a relatively low key role. The visit is described by Manley as removing "bogeys" around the image of Fidel Castro in Jamaica, with significant implications for Jamaica's political future.

Opposition and critics claim that relations with Cuba are part of a careful design with the ultimate objective of leading Jamaica into Cuban style political model. Manley insists that Jamaica will be pursuing its own path to Socialism with the emphasis on Democratic Socialism, given the deepseated democratic traditions in Jamaican political life. State control is not seen as an end in itself. The Jamaican model for the future is described by Manley as a mixed economy with highly developed system of worker participation through Cooperatives. The objective of a "mixed economy" is, however, regarded with considerable skepticism by the Jamaican private sector, particularly following the recent establishment of a State Trading Corporation.

B. Outlook Towards the Caribbean

Despite the strong advocacy of the Federation of the West Indies by his father (as Party leader) and his Party, Manley sees no relevance for a regional political union as far as Jamaica is concerned. His attitude towards the Caribbean is based on the long term advantages for the Caribbean in terms of economic cooperation and as the first tier in building Third World relationships. Cooperation between the English speaking ex British colonies in the Caribbean has been a natural development. Since the break-down of the West Indies Federation in 1961 successive Jamaican governments have supported first a free trading area (CARIFTA), then later, a deepening in the integration process in a common market (CARICOM).

Whilst Manley is a strong supporter of CARICOM, his policy postures have put a strain on the regional integration movement. First, Jamaican financial difficulties have led to restrictive trade policies vis-a-vis CARICOM trade partners, which has been bitterly resented by the main trading partner - Trinidad and Tobago. Secondly, financial crises have pushed Jamaica politically towards the Eastern Bloc of countries (diplomatic ties have been established with Moscow) and the declared intention by Manley to become a member of the COMECON Group so as to improve the external trade picture has had a very damaging effect on Trinidad relations. Thirdly, Manley holds the view that Jamaica should look outside the immediate regional group of English speaking countries to a wider group within the Caribbean basin which could hold out greater promise of stimulating Jamaica's economic development. This has been the basis of the courtship of Venezuela and Mexico and proposals for multi-national projects, with participation by these countries for cement, alumina and aluminium.

Manley has now cultivated close personal relations with President Andres Perez of Venezuela, who personally supports the Manley Government. With Mexico, relations were closest with President Echeverria whose Third
World concerns and ideas of social justice were shared by Manley.

These factors have quite naturally put severe strain on CARICOM and on relations between Jamaica and Trinidad and Tobago. Differences in political philosophy between the two countries have compounded the situation, with Prime Minister Eric Williams of Trinidad and Tobago being openly critical of the socialist policies being pursued by Jamaica and Guyana ("Socialism is slavery" - Williams) which he regards as responsible for their financial difficulties. There is not a good rapport between Williams and Manley, probably a personality difference but also arising from a clash in a quiet struggle for Caribbean leadership. For Williams, Manley is the "new boy". Manley's Third World leadership position also causes jealousy and pique. Further, Manley's overtures to Venezuela leading to Venezuelan financial assistance to Jamaica (for balance of payments and projects) have been a source of great irritation to Williams. Venezuelan participation is seen by Williams as a neo-colonialist approach to the Caribbean but also essentially as a competing pole to traditional Trinidadian influence in the Caribbean.

The upshot of this conflict of personalities and politics in the Caribbean (referred to recently by Claude Cheysson of the EEC) has been that CARICOM is at a stage of stagnation without leadership in the Secretariat (there has been no Executive Secretary for months) and political direction (there has been no Ministerial meeting for years).

This untidy situation in the Caribbean has clearly bedevilled the task of the Bank in establishing a Caribbean Group to foster economic development in the region.

C. Manley as a Third World Leader

Manley takes very seriously his role as a leader in the Third World. With Jamaica current Chairman of the Group of 77 in the UN, New York, this leadership role is being taken even more seriously. Manley very often presents Third World problems in simplistic terms. The Third World is described by him as "Fellow sufferers - victims trapped in the same situation - with the problem of the imperialist system and what it does to poor countries". He is convinced that the poverty in the developing Third World derives from an inequity in the economic relationships with the industrialized world. This explains why Jamaica has become the great champion of the New International Economic Order and has led the struggle for the Third World at the United Nations Special Session, at the North-South dialogue in CIEC in Paris, and at Commonwealth forums such as the Commonwealth Heads of Government meeting in London in May, 1977, and recently in the Common Fund discussions in Geneva.

Despite the present critical stage of Jamaica's economic problems, an indication of Prime Minister Manley's preoccupation with Third World matters can be gained from his decision to concentrate on the New International Economic Order as a subject for the discussions with President Carter on December 16. At preparatory meetings with US officials the following issues
were identified to be pursued at the Presidential discussions - trade, Common Fund, energy, debt, international financial structures, the overview mechanisms and investment. The United States has the greatest interest in the overview mechanism (for monitoring the progress on North-South issues being pursued in specialized forums) and investment (support on the US position on Transnational Corporations in the UN). Manley is likely to concentrate on energy and international financial structures. On energy, the Bank will be pressed to indicate its response to the mandate at CIEC (this has been touched on in my note to Warren Baum). On international financial structures, the main emphasis is likely to be on the Fund, particularly on the subject of improved access to resources and more relaxed conditionality, particularly as regards time allowed for adjustment and account to be taken of social, political and economic circumstances of a country. In view of the collapse of the recent Common Fund talks in Geneva (the Jamaican Ambassador was President of the Conference) questions might be raised about the Bank's attitude to the Common Fund proposal, particularly in regard to the proposed "Second Window".

Regarding the future of the North-South dialogue, Manley is on record at the Commonwealth Heads of Government meeting in London in May, 1977 as favoring the pursuit of the dialogue within the United Nations framework, subject to a restructuring of the UN aimed at the creation of a negotiating forum. Under the influence of Jamaica's Ambassador to the United Nations in his role as G 77 leader, Manley has shown no enthusiasm for the Brandt Commission with the misguided advice that this is diversionary from the major Third World objectives of structural change through a New International Economic Order being pursued in Third World forums.

The opportunity should not be missed to clear Manley's thinking on the real purposes of the Brandt Commission and to gain his unqualified support.

D.R. Clarke
December 8, 1977
Mr Manley was born on December 10, 1924. His early years were spent at the family home "Drumblair" in St Andrew.

His father, the late Rt Excellent Norman Manley, who died in 1969, is one of Jamaica's seven National Heroes. He was the founder of the PNP (1938) and was Chief Minister of Jamaica from 1955 to 1959, and Premier from 1959 to 1962.

The Prime Minister's early recollections are of a father who, as a barrister, had become the pre-eminent figure in legal circles; and of a mother, Mrs Edna Manley, who had made an international name for herself as a sculptor of disturbing originality. The elder Mr Manley was also a distinguished patron of the arts.

"I think my earliest recollection", he said recently, "is of playing all sorts of games — such as cricket and football — at Drumblair. I also have a vivid early recollection of my mother in her studio doing her carving with the chips flying; and you know, to a growing kid, the chips were more interesting than the carving! Later on, of course, the carving became more interesting than the chips!"

In 1935 — at the age of ten — he entered Jamaica College, his father's old school. Unlike his father, who had excelled at school as a track athlete, he concentrated on swimming, and as captain led his school to victory in two annual Inter-Scholastic Swimming Championships.

He left Jamaica College in 1942, and in September of the following year he registered at McGill University in Canada. Two weeks later, however, he joined the Royal Canadian Air Force as a volunteer.
He left this Force in 1945 as a Pilot Officer.

In September of that year, he decided to resume his university education, and chose the London School of Economics and Political Science (LSE).

He received an Honours Degree (B.Sc.) in Economics in 1949, and did post-graduate work there for a year. During that year, he did a study on “Contemporary Political Developments in the Caribbean”.

Mr Manley remained in London for another year as a free-lance journalist with the British Broadcasting Corporation (BBC). For the BBC he did book reviews and was a member of the panel of broadcasters in the weekly “Caribbean News”. Among his broadcasts was a series of specially prepared programmes on “Comparative Post-War Economic Development in the Caribbean”.

In 1951, he accepted an offer to return to Jamaica as associate editor of the weekly Public Opinion. The Managing Editor of this newspaper was the late Mr O.T. Fairclough, a foundation member of the PNP.

His appointment at Public Opinion began in January, 1952. In that year, he plunged into the political arena by addressing group meetings of the PNP. In April of that year, also, he started a political column in the newspaper titled “Root of the Matter”.

He was elected to the National Executive Council of the PNP in September, 1952.

The National Workers’ Union (NWU), which was founded in April 1952, also began asking him to address workers’ groups. By the following year, he had begun to handle union negotiations.

As he became increasingly involved in union activities, he made an arrangement with the Public Opinion management which allowed him to undertake part-time trade union and political work. This arrangement continued for some months until he was offered, and accepted, the post of Sugar Supervisor with the NWU in August, 1953.

Mr Manley’s involvement in the trade-union movement was based on a deeply held belief that “it is indispensable to the progress of the working classes and that the progress of the working classes is indispensable to the progress of the nation”.

As Sugar Supervisor of the NWU, Mr Manley set about familiarising himself with the workers’ conditions in the industry which were deplorable and were characterised by low wages, negligible fringe benefits, and poor worker-management relations. In his own words, the industry was “literally crying out for tough single-minded, efficient, professional deputation”.

His first major triumph as a trade unionist came in 1954 when the NWU decisively won representational-rights polls at Caymanas and Bybrook Estates in the parish of St Catherine and at the New Yarmouth Estate in Southern Clarendon.

These victories activated a surge of support for the NWU and within two years the union had established itself as the only major union in the Industry, apart from the Bustamante Industrial Trades Union (BITU).

In 1955, Mr Manley was appointed Island Supervisor and elected First Vice-President of the NWU.

Under his leadership, the NWU continued to make significant gains for sugar workers, but it was in 1962 that Mr Manley achieved one of his major triumphs in trade unionism during the Goldenburg Commission of Inquiry into the Sugar Industry.

Drawing on years of investigative work, he
proved to the Commission that in the five years prior to 1950 the industry had made J$4 million unreported profits. As a result he won a record settlement of J$2.5 million for the workers.

This settlement is still regarded as the definitive example of trade union presentation in Jamaica and the papers associated with it have been placed in the archives of the University of the West Indies (UWI).

One of the highlights of his early association with the NWU was the Alcan strike in 1953. (Alcan — the Aluminium Company of Canada — is one of the bauxite mining companies operating in Jamaica).

The NWU asserted the then-revolutionary view that wages in the bauxite industry should reflect the ability of the companies to pay. The union therefore demanded (and won after a decisive strike) a 300 per cent increase in the industry’s wages. Previously, bauxite wages were tied to those paid in areas such as agriculture and the government service.

The Alcan strike had two important effects on trade unionism in Jamaica. First, its innovative contract negotiations set a blueprint for the industry, and set off a growth rate in the NWU that equalled the 1938-41 growth rate of its rival union, the BITU.

It is significant that Mr Manley considers the issues surrounding a 97-day strike at the publicly-owned Jamaica Broadcasting Corporation (JBC) to be of such importance that he regards this as one of the highlights of his union career. The strike revolved around apparently simple case of dismissal of two employees. In fact, Mr Manley regards this strike as the battleground on which a more profound issue was at stake; that is, whether an employer had the absolute right to terminate a particular contract of employment “not because a worker was deficient, not because the job itself had ceased to exist, but for no reason other than the arbitrary desire of the employer to get rid of the particular worker”.

During this strike, Mr Manley organised a number of demonstrations. Choosing peak hours, Michael Manley and the workers (men and women), together with supporters, lay in the streets at major cross-roads and blocked traffic for miles around. They were removed only by mass arrests and by the use of tear gas. The demonstrations aroused nationwide interest in the issues surrounding the strike, and support for the case of the workers came from all strata of the society.

A public inquiry into the strike and its causes vindicated the workers, and Mr Manley and the NWU won nationwide acclaim for the conduct of the strike.

During his 20 years as an active trade unionist, Mr Manley introduced highly sophisticated contract negotiations which improved the standard of trade-union practices in Jamaica. His achievements in trade-union representation in Jamaica led to his election as President of the Caribbean Bauxite, Mineworkers and Metal Workers Federation in 1964, an office which he held until 1974.

Appointed a member of the Jamaican Senate in 1962, Mr Manley remained in that post until 1967, avoiding elective politics. He has since explained that this was a deliberate attempt to avoid the charge of capitalising on his father’s name.

“TO find one’s own identity involves searching for one’s own role in life”, he said.

However events, beginning in 1967, propelled him into the active political arena and he found himself “trapped by the forces of history”, as he has subsequently described it.

As a result of the decision of the then JLP Government to increase the number of constituencies prior to the 1967 general election the boundaries of the Central Kingston constituency — represented by a Vice President of
the PNP, Mr Wills O. Isaacs were changed. This altered its electoral character and it was therefore suggested that Mr Isaacs seek re-election in another constituency.

Shortly before the election, Mr Manley was asked to stand in the constituency vacated by Mr Isaacs. He accepted the challenge and was elected by the narrow margin of 43 votes. Two years later, in 1969, when his father resigned from leadership of the PNP, he was elected President of the party. Mr Manley was then appointed Leader of the Opposition in Parliament. He served in this capacity until his appointment as Prime Minister in 1972.

As Prime Minister, he took office committed to the idea that significant, even controversial, changes would have to be made in Jamaica's domestic and international policies if the nation was to become more than formally independent.

At home, new concepts of self-reliance would have to be encouraged, a new distribution of wealth and property would have to be pursued by legislation if the society was to witness a real transformation of human relationships rather than a mere reformation of existing inequalities.

Abroad, new alliances would have to be sought with other Third World countries . . . to complement Jamaica's traditional attachments to the United Kingdom, Canada and the United States . . . if the country was to realise, fully, its economic and cultural potential.

On November 20, 1974, in the House of Representatives, Michael Manley stated the principles and ideology on which his Government would continue to serve and which inspired his ruling party. After two and a half years of close, internal debate, the Government and the party were agreed that Jamaica could be developed best, in both human and material terms, only if its legislators and their advisers accepted the philosophy of Democratic Socialism.

Central to this philosophy was what Manley has defined for himself as the "single touchstone" in the morality of politics: the notion of equality.

This egalitarian concept is, perhaps, the most stubborn constant in Michael Manley's perception of the just society. It is certainly the factor in his thinking, his feeling and his policies to which every shade of opinion in his party subscribes and which, by its moral weight, commands the general recognition that the leadership of the party should be his.

It is a stubborn conviction that he has carried and argued into Jamaica's new foreign policy . . . with a success that few could question, and fewer would care to deny.

Mr Manley has expressed repeatedly his passionate belief that each person, like each nation, is or should be treated as sovereign. Superior talent, superior power, are mere assets to be used with discrimination.

They impose obligations, not privileged rights of passage from the cradle to the grave.

Since becoming Prime Minister, Mr Manley has been honoured with the Order of Liberator in Venezuela (1973), Doctor of Laws at Morehouse College in Atlanta (1973), and the Order of Jose Marti in Cuba (1975).

His first book, "The Politics of Change", was published in 1973. In the preface to this book, Mr Manley expressed the hope that it "may serve as a point of departure for the realistic discussion of Jamaica's future; her possibilities, problems, her strengths and weaknesses, most importantly, the hopes she may dare to entertain and the ideals to which she must be committed: the dream, the vision of which she must measure her shortcomings".

His second book, "A Voice at the Workplace", dealing with his trade-union career, was published in late 1975.

The Agency for Public Information
Kingston
March 1977
# Record Removal Notice

**File Title**  
Contacts with member countries: Jamaica - Correspondence 02

**Barcode No.**  
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**Document Date**  
Dec 3, 1980

**Document Type**  
Cable attachment

**Correspondents / Participants**  
To: Robert McNamara  
From: Nicolas Ardito Barletta

**Subject / Title**  
Jamaica: Visit of Prime Minister Seaga - Cable attachment "RE: Your Aide Memoire dated November 21, 1980; Prime Minister and Minister of Finance, Jamaica to E. Walter Robicheck, Director, Western Hemisphere Department (IMF), 1/12/80

**Exception No(s).**  
1 [✓] 2 3 4 5 6 7 [✓] 8 9 10 A-C 10 D

**Reason for Removal**  
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**Withdrawn by**  
Sherrine M. Thompson  
**Date**  
Mar 22, 2013
Mr. Seaga will explain the philosophy of his policies and tentative ideas about timing.

The general thrust of our recommended position is alright but:

1) there is not much content yet to the lending program, and

2) the preparation of a SAL may take longer than forecast.

Mr. Seaga will be interested in how much we can do, how quickly.

It would be appropriate to focus on the criteria we look for, rather than specific amounts and timing.
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Nicolas Ardito Barletta

DATE: December 2, 1980

SUBJECT: JAMAICA: Briefing for Mr. Seaga's Visit

1. On Wednesday, December 3, you will receive the visit of Mr. Edward Seaga who became Prime Minister and Minister of Finance and Planning of Jamaica after his party, the Jamaica Labor Party, defeated Mr. Michael Manley's People's National Party in a general election held on October 30, 1980. Mr. Seaga's party took 57% of the popular vote and 51 out of 60 seats in Parliament.

2. Mr. Seaga's Government is faced with a task of reconstructing an economy devastated by years of mismanagement and civil disorder. The task is somewhat akin to that faced by the Argentine authorities in 1976 but is made more difficult by Jamaica's narrower resource base and greater dependence on foreign trade. Moreover, the point of departure is a much more desperate situation for the poorer segments of the population: real GDP has declined about 20% since 1973, and the unemployment rate is over 30%. Therefore, the degrees of freedom of the new Government are limited, however overwhelming its electoral victory. Realistically, we cannot expect a quick recovery but rather should be prepared for a long and difficult process of structural adjustment.

3. Mr. Seaga is likely to request extraordinary and immediate financial assistance from the Bank. You may wish to answer that the Bank is prepared to support a program directed toward overcoming the main obstacles to the country's long-term development. However, the size of the external requirements is such that our direct financial role can only be relatively modest; rather, we hope to provide, jointly with the Fund, the nucleus for a package through which massive external support is matched by a restructuring of the Jamaican economy through appropriate economic policy decisions. The additional external support would have to come from bilateral and multilateral donors and lenders and, importantly, from the commercial banks.

4. The definition of an appropriate policy package will take some time and should, in any event, not be compromised by the need to offer some immediate assistance. With a view to providing some of the required immediate assistance, we are now beginning to process a loan to increase the resources of the Export Development Fund which was established through our FY79 Program Loan. We expect to be able to agree to the details of this loan with the Jamaican Government during December 1980, and thus to submit it to the Bank's Executive Directors during February or March 1981. At the same time, we will endeavour to reach agreement on the broad outlines of an economic recovery and adjustment program. We intend to assist the Government in working out the specific details of such program during the early months of 1981. Accordingly, a structural adjustment loan may be ready for Board presentation by May or June, FY81. The FY81 program also includes an oil exploration loan, which is already being processed. The total amount of the FY81 program would be in the $65-85 million range. Attachment I spells out the tentative amounts proposed for each FY81 loan, as well as a tentative program for FY82-83.
5. Mr. Seaga may request a technical assistance loan for economic and financial planning. Such assistance could be justified by the extremely severe brain drain that affected Jamaica (and particularly its public sector) during recent years. We will try to mobilize such assistance from other donor countries and institutions, in the framework of the Caribbean Group. However, if the usual sources of financing technical assistance activities cannot satisfy Jamaica's needs in this respect, we should consider the possibility of a small technical assistance loan.

6. A viable recovery program in Jamaica will require many years to be effective. The key economic policy areas that we intend to include in our dialogue with the Government are the following:

   Export-oriented Growth: Some progress was achieved in this respect with the previous Government (agreement on the policy principles, and establishment of the Export Development Fund), but more basic (and difficult) decisions will be required in the near future (see paragraph on "Industrial Incentives" below).

   Deregulation of the Economy: One of the most serious obstacles facing the Jamaican private sector has been excessive government regulations and bureaucratic procedures, which should be reduced drastically.

   Agricultural Policies: (a) the sugar cooperatives are a clear failure and should either be restructured or abolished altogether; (b) the banana industry has long been in decline and was badly damaged by the hurricane in August. A reconstruction program should be undertaken in this respect; and (c) a number of other agricultural policies need to be revised such as pricing, credits and land tenure.

   Industrial Incentives: Gradual reform of the system of incentives to adopt a more outward looking strategy. This implies a reorientation of present policies, which have been aimed primarily at import substitution at the national and regional levels. The industrial strategy should also include the immediate promotion of enclave-type industries.

   Energy Conservation: The Government's energy conservation program should be strengthened. In Jamaica, 99% of all energy consumed is imported under the form of oil, and its cost absorbs more than half of export revenues.

   Financial System: (a) interest rates policies should be raised with a view to increasing domestic savings and reducing capital outflows; and (b) the Jamaica Development Bank must be completely restructured and recapitalized. Increased reliance must be placed on the commercial banking sector, with public institutions as a complement rather than a substitute.

   Public Investments: A detailed, realistic, medium-term public investment program with clear priorities, and the corresponding financing plan, will have to be agreed with the Government.

7. A Projects staff mission visited Jamaica on November 17, to review the Export Development Fund's performance and financial requirements, with a view to providing a replenishment. An economic mission will be fielded as of December 4, to review the economic situation and start discussions on economic policy. Such mission will probably be simultaneous with an IMF mission which
would negotiate a new EFF arrangement. Depending upon their findings, a meeting on Jamaica might be called, within the Caribbean Group framework, in early 1981.

8. The document "Change without Chaos", that was recently sent to you from the Jamaican Embassy—at Mr. Seaga's request—is a well prepared political manifesto. The consistency of the various goals stated there can only be assessed when they are translated into concrete action programs and tested against the tight financial constraints that the Government of Jamaica will have to face. In connection with the public sector investment program, that the cover letter (Attachment 3) singles out as the main area in which Mr. Seaga wishes to explore how the Bank could assist Jamaica, you may wish to answer the following:

(a) the Bank will assist the Government in the preparation of the public sector investment program and financing plan;

(b) the Bank plans to monitor the execution of the public sector investment program, reporting to the Government on possible delays, their causes, and proposed solutions;

(c) our lending program for FY81-FY83 (Attachment 1) includes important public sector projects: Kingston Free Zone and Kingston Urban Transport;

(d) counterpart funds generated by our SALs will be available to finance local costs of the public sector investment program; and

(e) the Bank could consider a small technical assistance loan for economic and financial planning, as mentioned in paragraph 5.

Attachments

cc: Mr. Stern

AMeyer/RGonzalez-Cofino:ib
### JAMAICA: Lending Program, FY81-83

#### FY81
- Export Development Fund 2: $30 million
- Petroleum Exploration: 5 "
- SAL I: $30 - 50"
- **Total:** $65 - 85 million

#### FY82
- Kingston Free Zone: $15 million
- Export Agriculture I (banana rehabilitation): 15 "
- SAL II: $30 - 50 million
- **Total:** $60 - 80 million

#### FY83
- Kingston Urban Transport: $15 million
- Export Agriculture II (sugarcane rehabilitation): amount to be determined
- SAL III: ""
Biographical Information

SEAGA, Edward Philip George

Mr. Seaga was leader of the Opposition in the Jamaican Parliament until October 1980, when his party, the Jamaican Labor Party won the general elections.

Mr. Seaga was elected Member of Parliament for the first time in 1962; during 1962-67 he was Minister of Development and Social Welfare, and in 1967-72 he was Minister of Finance and Planning. He has also been an economic and financial consultant.

Mr. Seaga earned a Bachelor of Arts in Social Sciences from Harvard University (1948-52). He did field research on development of the child and revival-spirit cults by living in rural villages and urban slums.

Born in May 1930, Mr. Seaga is married and has three children. His interests include classical music, reading, shooting, hockey, football and cricket.
November 25, 1980.

Dear Mr. McNamara,

I have been requested by my Prime Minister, the Honourable Edward Seaga, Minister of Finance and Planning and Governor for Jamaica at the World Bank, to forward the enclosed copy of his Party's Manifesto entitled "Change without Chaos - A National Programme for Reconstruction."

Prime Minister Seaga will be visiting Washington from December 2 - 4 and expects to meet with you at 5:30 p.m. on December 3. The Prime Minister would be grateful if prior to this meeting you would have a look at this publication, especially in the area of public investment programmes, in order to see where your institution could be of assistance to Jamaica.

Yours sincerely,

T.A. Stimpson
Charge d'Affaires a.i.

Mr. Robert McNamara
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433.

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<td>1,036.9</td>
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<td>1,542.0</td>
</tr>
<tr>
<td>Public debt</td>
<td>313.0</td>
<td>273.8</td>
<td>261.6</td>
<td>427.0</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>11.5</td>
<td>21.4</td>
<td>33.8</td>
<td>47.0</td>
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<tr>
<td>Private debt</td>
<td>14.9</td>
<td>39.9</td>
<td>20.8</td>
<td>54.0</td>
</tr>
<tr>
<td>Public capital payments</td>
<td>--</td>
<td>--</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>EDF</td>
<td>--</td>
<td>--</td>
<td>6.0</td>
<td>24.0</td>
</tr>
<tr>
<td>CARICOM</td>
<td>--</td>
<td>--</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Quota payment</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>12.0</td>
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<tr>
<td>Oil imports</td>
<td>107.6</td>
<td>176.1</td>
<td>254.6</td>
<td>293.0</td>
</tr>
<tr>
<td>Non-oil imports</td>
<td>452.8</td>
<td>401.4</td>
<td>367.3</td>
<td>530.0</td>
</tr>
<tr>
<td>Other payments</td>
<td>103.1</td>
<td>124.3</td>
<td>73.3</td>
<td>120.0</td>
</tr>
<tr>
<td><strong>Change in Reserves</strong></td>
<td>13.8</td>
<td>-2.1</td>
<td>-13.8</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Financing Gap</strong></td>
<td>--</td>
<td>--</td>
<td>48.7</td>
<td>250.9</td>
</tr>
<tr>
<td><strong>Memorandum items (end of period)</strong></td>
<td>50.3</td>
<td>56.2</td>
<td>45.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Gross reserves of Bank of Jamaica</td>
<td>(21.0)</td>
<td>(18.8)</td>
<td>(5.0)</td>
<td>(25.0)</td>
</tr>
<tr>
<td>Liquid reserves</td>
<td>(29.3)</td>
<td>(37.4)</td>
<td>(45.0)</td>
<td>(40.0)</td>
</tr>
<tr>
<td>Non-liquid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrears</td>
<td>63.4</td>
<td>55.2</td>
<td>170.0</td>
<td>60.0</td>
</tr>
</tbody>
</table>

Sources: Bank of Jamaica; and Fund staff projections.

**NOTE:** The 1981 projections are preliminary, and subject to substantial changes depending upon the findings of the Bank mission, which will visit Jamaica on December 4-19.
Mr. Ernest Stern

Nicolas Ardito Barletta

Signed

JAMAICA: Proposed Approach

November 14, 1980

1. The new Government will be faced with a task of reconstructing an economy devastated by years of mismanagement and civil disorder. The task is somewhat akin to that faced by the Argentine authorities in 1976 but is made more difficult by Jamaica's narrower resource base and greater dependence on foreign trade. Moreover, the point of departure is a much more desperate situation for the poorer segments of the population: with a 25-30% unemployment rate the degrees of freedom of the Government are obviously limited, however overwhelming its electoral victory. Realistically, we cannot expect a quick recovery but rather should be prepared for a long and difficult process of structural adjustment.

2. The Bank can be of real assistance to the Government in the present situation. However, the size of the external requirements is such that our direct financial role can only be relatively modest; what is to be looked for, rather is that the Bank and the Fund jointly provide the nucleus for a package through which fairly massive external support is matched by a restructuring of the Jamaican economy through economic policy measures. The external support would have to come from bilateral and multilateral donors and lenders and, importantly, from the commercial banks.

3. The definition of an appropriate policy package will take some time and should, in any event, not be compromised by the need to offer some immediate assistance. While such assistance can be based on a general understanding with commitment from the Government that a policy package can and will be agreed upon during the course of the next six to nine months, it will, of necessity, have to be focussed on immediate assistance rather than long run structural adjustment. Its size is not as important as its timeliness in providing a signal to the international financial community that Jamaica, the Bank and the IMF are seriously committed to a viable plan of recovery and adjustment.

4. With a view to providing such assistance, I propose to start processing immediately a loan to increase the resources of the Export Development Fund which was established through our FY79 Program Loan. We expect to be able to agree to the details of this loan with the Jamaican Government during December 1980, and thus to submit it to the Bank's Executive Directors during February 1981. At the same time, we would endeavour to reach agreement on the broad outlines of an economic recovery and adjustment program, but would expect to work out the specific details and policies during the early months of 1981. Accordingly, we anticipate that it may be possible to have a Structural Adjustment Loan ready for Board presentation before the end of FY81. The FY81 program would also include an oil exploration loan.

1/ "Jointly" is not meant in a formal, legal sense, but means, through a common approach, reached through continuous consultation.
which is already being processed. The total amount of the FY81 program would be in the $65–85 million range. Attachment I spells out the tentative amounts proposed for each FY81 loan, as well as a tentative program for FY82–83.

5. In addition, there are some indications that the Government might request a technical assistance loan for economic and financial planning. Such assistance could be justified by the extremely severe brain drain that affected Jamaica (and particularly its public sector) during recent years. We would try to mobilize such assistance from other donor countries and institutions, in the framework of the Caribbean Group. However, if the usual sources of financing technical assistance activities cannot satisfy Jamaica’s needs in this respect, the Bank should consider the possibility of a small technical assistance loan.

6. A viable recovery program in Jamaica will require many years to be effective. The country has been consuming beyond its means for many years, has seen a continuous deterioration of its productive capacity and has had a large loss of skilled manpower over the past decade. An effective recovery and adjustment program will have to address all three problems at the same time and simultaneously rationalize its overly large and inefficient public sector. The key economic policy areas that we propose to include in our forthcoming dialogue with the Government would be the following:

   **Export-oriented Growth**

   - Some progress was achieved in this respect with the previous government (agreement on the policy principle, establishment of the EDF). The same line should be pursued with the new government.

   **Agricultural Policies**

   - The sugar cooperatives are a clear failure and should either be restructured or abolished altogether. Harvesting equipment and mechanical equipment is also badly needed.
   - The banana industry has long been in decline and was badly damaged by the hurricane in August. A reconstruction program should be undertaken in this respect.
   - A number of other agricultural policies need to be revised such as pricing, credits and land tenure.

   **Industrial Incentives**

   - Gradual reform of the system of incentives to end discrimination against production for export outside the region. This implies a reorientation of present policies aimed primarily at import substitution through the elimination of quantitative restrictions and the gradual elimination of other forms of excessive protection from foreign competition. Immediate promotion of enclave-type industries.
Deregulation of the Economy

- One of the most serious obstacles facing the Jamaican private sector has been excessive government regulations and bureaucratic procedures, which should be reduced drastically.

Energy Conservation

- The Government's energy conservation program should be strengthened. For a country where 99% of all energy consumed is imported under the form of oil, with its cost of more than half of export revenues, energy conservation must be a primary objective, since considerable savings can be achieved at moderate costs.

Financial System

- Interest rate policies should be reviewed with a view to increasing domestic savings and reducing capital outflows.

- The Jamaica Development Bank must be completely restructured and recapitalized. Increased reliance must be placed on the commercial banking sector, with public institutions as a complement rather than a substitute.

Public Investments

- A detailed, realistic medium-term public investment program, based upon appropriate development priorities, as well as the corresponding financing plan, would have to be prepared by the Government in the immediate future. (We understand that this work was started before the elections by Finance Ministry technicians.)

In this framework, the EDF loan would be based upon agreement on the general strategy for industrial development and the size and composition of the public investment program, in addition to the main lines of the overall economic program referred to in para. 2 above. The FY81 SAL would be related to at least most of the policy areas mentioned in this paragraph.

7. A project staff mission is scheduled now to visit Jamaica on November 17, to review EDF performance and financial requirements. If you agree with the above approach, an economic mission would also go there in early December, to review the economic situation and start discussions on economic policy. Such mission would probably be simultaneous with an IMF mission which would aim at negotiating a new EFF arrangement. Depending upon their findings, a meeting on Jamaica might be called, within the Caribbean Group framework, in early 1981.
8. In summary, I am suggesting two interrelated approaches to cooperate with Jamaica: one is strictly the Bank's program with this country including three possible loans this fiscal year (an export development fund replenishment, a SAL type loan, and oil exploration); the second is a coordinating role within the Caribbean framework where the IMF, IDB and ourselves would participate and which may also include private banking participation for cofinancing of some loans or in general support to Jamaica on the basis of a policy package negotiated with the IMF and the Bank. There are two crucial components in all of this: liquidity support in the short run to keep Jamaica going which would be provided by private banks and a consistent short and medium-term package of policies to be adopted by Jamaica for adjustment which would be supported in stages by the Bank, Fund, IDB and private banks in order to do as much as possible to put that country on a renewed development trajectory over the next four years.

Attachment

cc: Messrs. Please, VPO
    Landell-Mills, PPR

JL/RGC/AM/NC/NAB:ib:sct
<table>
<thead>
<tr>
<th>Year</th>
<th>Project Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY81</td>
<td>EDF 2</td>
<td>$30 million</td>
</tr>
<tr>
<td></td>
<td>Petroleum Exploration</td>
<td>5 &quot;</td>
</tr>
<tr>
<td></td>
<td>SAL I</td>
<td>$30 - 50 &quot;</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$65 - 85 million</td>
</tr>
<tr>
<td>FY82</td>
<td>Kingston Free Zone</td>
<td>$15 million</td>
</tr>
<tr>
<td></td>
<td>Export Agriculture I</td>
<td>15 &quot;</td>
</tr>
<tr>
<td></td>
<td>(banana rehabilitation)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SAL II</td>
<td>$30 - 50 million</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$60 - 80 million</td>
</tr>
<tr>
<td>FY83</td>
<td>Kingston Urban Transport</td>
<td>$15 million</td>
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<tr>
<td></td>
<td>Export Agriculture II</td>
<td>amount to be determined</td>
</tr>
<tr>
<td></td>
<td>(sugarcane rehabilitation)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SAL III</td>
<td>&quot;</td>
</tr>
</tbody>
</table>
OFFICE MEMORANDUM

TO: Robert McNamara (through Shirley Boskey)

FROM: Peter Riddleberger

SUBJECT: Prime Minister Seaga

1. The Prime Minister of Jamaica will be a guest of the GOP Congressional leadership at dinner on Wednesday, December 3. The purpose is to show renewed interest by the incoming Administration in the economic well-being of the Caribbean. Richard Allen and Bill Young are scheduled to attend. I understand you will be seeing the Prime Minister earlier that afternoon.

2. This will be an opportunity for Seaga to mention to skeptical Republicans the importance of IDA to that region.

PR/dr