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INTERNATIONAL DIVISION

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APRIL 19, 1983

The Honorable M. Peter McPherson
Administrator, Agency for
International Development

Subject: AID's Assistance to Jamaica (GAO/ID-83-45)

Dear Mr. McPherson:

We recently completed a review of AID's assistance program to Jamaica. Our observations raise questions about the effectiveness of the balance-of-payments assistance the United States provided Jamaica in 1981 and 1982. The information we obtained and our conclusions and recommendations are summarized in this letter. Additional information is in enclosure I.

Between 1981 and 1982, AID provided Jamaica with about \$188 million in balance-of-payments assistance to stimulate economic growth. About \$153 million of this assistance was in the form of cash transfers. In 1981, Jamaica's economy grew by 2 percent--a dramatic reversal from the negative growth rates experienced during the previous 7 years. However, growth slowed to less than 1 percent in 1982, and little or no growth is projected for 1983. These growth rates are well below Jamaican targets established in early 1981. The primary reasons for the slower than expected growth were the worldwide recession and declining sales of bauxite--Jamaica's main export. In addition, private sector growth has been less than anticipated.

AID INFLUENCE ON JAMAICAN POLICIES

Balance-of-payments assistance through Economic Support Fund (ESF) and P.L. 480 programs can contribute to development. AID can influence Jamaican economic policies by making assistance conditional on implementation of reforms which can encourage private sector and overall economic growth. AID and Jamaican private sector officials have commented that Jamaican policies have constrained private sector and overall economic growth. We found that AID has generally not achieved substantial policy reforms. Mission officials said they had prepared plans to increasingly link assistance to implementation of policy reforms. We believe that following through with AID's plan to link assistance to implementation of policy reforms is important. After performing fieldwork, program officials

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advised us in late 1983 that AID had recently provided Jamaica with an additional cash transfer of \$25 million with the requirement that Jamaica perform studies on policy reforms which would encourage economic growth.

NO ASSURANCE FOREIGN EXCHANGE PROVIDED
RESULTS IN ADDITIONAL PRODUCTIVE IMPORTS

Foreign exchange provided to Jamaica is intended to finance imports which the private sector needs to increase production and employment. AID mission officials told us that once the exchange is provided, they do not attempt to control how it is used, and have no assurance that it results in additional imports of U.S. equipment and materials needed to stimulate economic growth. With an improved monitoring process, we believe AID could encourage Jamaica to increase productive imports from the United States.

We recommend that the Administrator, AID, implement a system to monitor actual imports from the United States as a basis for assuring that productive imports from the United States increase. In enclosure I we suggest one monitoring process AID could implement.

USING LOCAL CURRENCIES
FOR DEVELOPMENT PURPOSES

AID requires that Jamaica provide local currency equivalent to the value of U.S. balance-of-payments assistance for agreed upon development projects and purposes. But, Jamaica was slow to meet local currency provisions of AID assistance. Further, AID has played a relatively passive role in selecting projects which will receive local currency proceeds. AID relied on the Government of Jamaica to select up to 90 percent of the projects which will receive local currency. We believe that AID could assume a more active role in identifying and proposing development projects to receive local currency. Further, AID does not plan to perform on-site monitoring of local currency projects to assure that budget funds are in fact provided for agreed upon purposes and to determine if projects are progressing adequately.

Accordingly, we recommend that the Administrator, AID, attempt to identify an increasing portion of development projects for which local currency will be allocated, and monitor on a spot basis the end use of the local currency.

As you know, 31 U.S.C. 720 requires the head of a Federal agency to submit written statements on actions taken on our recommendations to the House Committee on Government Operations

and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. Copies of this letter and the enclosure have been provided to interested congressional committees.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives for this review were to: (1) examine Jamaica's current economic condition; (2) evaluate AID's administration of balance-of-payments assistance; and (3) identify possible AID actions to enhance economic recovery and improve development. The above objectives were chosen to address concerns of interested congressional committees.

We performed fieldwork in Jamaica during the October-December 1982 period. The fieldwork included extensive discussions with AID and Embassy officials, selected Government of Jamaica officials, representatives of private sector organizations, other multilateral donors and the International Monetary Fund. In addition, we reviewed AID project and program documents such as project plans, progress reports, evaluations, cables, and financial documents. We supplemented our fieldwork in Jamaica by reviewing documents and meeting with AID headquarters officials. This report also draws on information obtained by our staff during a visit to Jamaica in May 1981. Our work was conducted in accordance with generally accepted Government auditing standards.

We have not obtained official agency comments on information contained in this report. However, we have discussed our observations with agency officials.

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We appreciate the cooperation and assistance received from AID mission and headquarters officials during the course of our review.

Sincerely yours,



Frank C. Conahan
Director

Enclosure

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ABBREVIATIONS

| | |
|-----|--------------------------------------|
| AID | Agency for International Development |
| ESF | Economic Support Fund |
| GAO | General Accounting Office |

BACKGROUND

After gaining independence from the United Kingdom in 1962, Jamaica experienced steady economic growth of about 6 percent per year through the late 1960s and early 1970s. Jamaica's mineral wealth, abundance of productive agricultural land, developed physical and social infrastructure, experienced private sector, and proximity to export markets all pointed to Jamaica developing into one of the more prosperous Caribbean nations. But, the 1973 oil crisis and subsequent worldwide inflation halted Jamaica's economic growth by softening the demand for bauxite and reducing tourism earnings, foreign investment, and Jamaican exports. According to the Agency for International Development (AID) the Jamaican Government pressed forward with ambitious social programs financed with a bauxite levy which further reduced the demand for Jamaican bauxite, and deficit budgets requiring short-term foreign borrowing and unbacked domestic credit. As a consequence, Jamaica experienced 7 consecutive years of negative growth between 1974 and 1980, with Gross Domestic Product decreasing by almost 18 percent, per capita income dropping 23 percent, and unemployment and inflation both rising to nearly 30 percent.

AID administers the U.S. assistance program to Jamaica. AID assistance, beginning in the 1950s averaged about \$5 million per year through 1976, but increased to about \$32 million per year during fiscal years 1977 and 1978. Annual assistance levels were about \$19 million during fiscal years 1979 and 1980. In an earlier review of U.S. assistance to Jamaica in 1980 we found that AID projects were experiencing serious implementation problems, but for the most part, the problems were manageable if Jamaica's economy did not deteriorate further.¹

In October 1980, a newly elected government led by Prime Minister Seaga proclaimed its intention to achieve economic recovery through private sector growth. The new administration promised to aggressively promote private sector development, encourage foreign investment, limit bureaucratic controls over economic activity and, in general, open the economy up to the motivational force of price and profit incentives. This proposed development strategy was a radical break with the nation's past economic policies which had inhibited private sector growth and foreign investment. Believing that the proposed policies of the newly elected government offered promise for revitalizing Jamaica's economy, AID has provided Jamaica over \$200 million in the 2 years since the Seaga administration took office and plans a fiscal year 1983 program of \$110 million. Through this assistance, AID hoped to make Jamaica an example of what could be accomplished when assistance was provided to a government that shared the U.S. belief that private sector growth would lead to economic development.

¹ U.S. Response to Jamaica's Economic Crisis (ID/80-40, July 17, 1980).

U.S. Assistance to Jamaica (by fiscal year)
(in millions)

| <u>Source</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> |
|------------------------|---------------|----------------|----------------|
| Development Assistance | \$12.9 | \$ 28.9 | \$ 37.0 |
| Economic Support Fund | 41.0 | 90.5 | 53.0 |
| Disaster Assistance | - | 0.1 | - |
| Public Law 480 | 17.1 | 17.5 | 20.0 |
| Total | <u>\$71.0</u> | <u>\$137.0</u> | <u>\$110.0</u> |

AID PROVIDES SUBSTANTIAL
BALANCE-OF-PAYMENTS SUPPORT

AID's program since early 1981 has emphasized short-term balance-of-payments support. AID believed that its increased assistance, along with economic support from the International Monetary Fund and other sources, would provide the economic stability needed for Jamaica to quickly implement a private sector development strategy which would, in several years, begin to generate revenues to replace the high levels of external assistance. Mission officials told us that in late 1980 the newly elected Government of Jamaica faced a projected balance-of-payments gap of more than \$550 million for 1981. According to AID, Jamaica lacked sufficient foreign exchange to purchase imports essential for economic recovery and service a large external debt. At the same time, large budget deficits inherited from the former government made continuation of development programs difficult.

To help Jamaica cope with its foreign exchange and budget deficits, AID has provided almost \$188 million in quick disbursing balance-of-payments support. Through the Economic Support Fund (ESF), AID provided \$153 million directly to the Government of Jamaica as cash transfers. The remaining \$35 million was provided through Public Law 480 title I (P.L. 480) concessional food sales. P.L. 480 assistance does not provide foreign exchange but does ease foreign exchange shortages by permitting existing exchange to be used for imports other than agricultural commodities. The balance-of-payments support was to help revitalize the private sector by providing foreign exchange needed to pay debts and purchase raw materials, capital equipment, replacement spare parts and foods and services, and to provide the Government of Jamaica with budget support.

U.S. BALANCE-OF-PAYMENTS SUPPORT TO JAMAICA
(1981-1982)

| <u>Type</u> | <u>U.S. Dollars</u> <u>(millions)</u> | <u>Date of Agreement</u> |
|-------------------|--|--------------------------|
| ESF Cash Transfer | \$ 40.0 | January 19, 1981 |
| P.L. 480 | 15.0 | February 6, 1981 |
| P.L. 480 | 2.1 | August 5, 1981 |
| ESF Cash Transfer | 38.0 | December 29, 1981 |
| P.L. 480 | 17.5 | April 30, 1982 |
| ESF Cash Transfer | 50.0 | September 27, 1982 |
| ESF Cash Transfer | <u>25.0</u> | December 17, 1982 |
| Total | <u>\$187.6</u> | |

AID also provided Jamaica about \$14 million in fiscal year 1981, and \$31 million in fiscal year 1982 for development projects, and plans to provide about \$40 million for projects in fiscal year 1983. These projects include activities in a number of sectors with emphasis on projects to promote private-sector growth such as a \$10 million project to provide foreign exchange to small-scale manufacturing firms whose foreign exchange demand is not being satisfied by other sources. In a further effort to support Jamaica, the U.S. Government purchased \$50 million (1.6 million tons) of Jamaican bauxite in 1982 for its strategic stockpiles which provided additional foreign exchange to Jamaica. An additional purchase of 1 million tons is planned in 1983.

HOPES FOR EARLY ECONOMIC RECOVERY

The Seaga Government's planned shift in policies, as well as the substantial inflows of foreign exchange from international donors, led AID to expect an early economic recovery. The Government of Jamaica projected economic growth of 3 percent in the Jamaican fiscal year 1981/82 and 4 and 5 percent in fiscal years 1982/83 and 1983/84, respectively.²

A major shift in policy has been the government action to encourage foreign investment and private sector growth. For example, the Jamaica National Investment Promotion Agency was formed in September 1981 to streamline the investment process and remove bureaucratic obstacles that might otherwise discourage investors. Jamaican officials told us that this new agency provides the following services to move investment projects into production as quickly as possible:

--information about the investment environment;

² Jamaica's fiscal year runs from April 1 to March 31.

- assistance in obtaining factory space, work permits, trade licenses and investment incentive packages;
- research to help identify markets; and
- technical and managerial assistance to small businesses.

According to Jamaican statistics this agency had, as of September 30, 1982, assisted 347 investment proposals involving \$604 million in potential investments. Ninety-one of these projects, with an investment value of \$87 million, were in the production stage.

To stabilize and stimulate its economy, the Seaga Government arranged for substantial amounts of support from other donors and financial institutions. AID officials estimated that excluding U.S. assistance, Jamaica received assistance in the range of \$400 million to \$500 million per year in 1981 and 1982, and will receive a like amount in 1983. Assistance from external sources is, like AID assistance, mostly in the form of balance-of-payments support. A 3-year Extended Fund Facility agreement between the International Monetary Fund and Jamaica is the cornerstone of the overall assistance program for Jamaica. The agreement will provide Jamaica about \$650 million in balance-of-payments support during the 3-year period beginning March 1981.

JAMAICA'S ECONOMIC RECOVERY SLOWED

After 2-1/2 years under the Seaga Government, there has been some improvement in economic conditions, though Jamaica's overall economic recovery has slowed. Events which are largely external, such as the worldwide recession and an unexpected reduced demand for bauxite, have contributed to this. Officials of the Jamaican Government and private sector organizations also told us that the private sector has not grown as much as expected and the prospects for overall economic recovery are still uncertain.

After 7 consecutive years of negative growth, the Jamaican economy showed signs of recovery in 1981 when it achieved real economic growth of about 2 percent. Other indicators show some improvement over the economic situation the Seaga administration inherited at the end of 1980:

1. In 1981 the consumer price index increased by only 4.7 percent, substantially less than the 28.6 percent increase recorded in 1980.
2. Unemployment dropped from 27.3 to 25.9 percent between 1980 and 1981.

But in 1982, Jamaica's economy grew by less than 1 percent and in 1983, AID mission officials expect that growth may be zero or even negative. According to AID, Jamaica's economic recovery program which began in late 1980 is 2 years behind schedule.

While there is no single cause for Jamaica's slow rate of economic recovery, the worldwide recession has a negative impact on Jamaica by reducing demand for all Jamaican exports, including bauxite, and by discouraging foreign investment in Jamaica. Domestic production and foreign investment depend heavily on levels of economic activity in the developed countries and are bound to develop slowly in Jamaica until present worldwide conditions improve.

Private sector growth has also been less than expected. For example, a November 1982 Embassy document stated that the rate of foreign and domestic investment in Jamaica has been substantially less than expected. We interviewed various Jamaican Government and private sector officials who generally agreed that private sector growth was less than expected and that initial expectations for private sector growth were unrealistically high. For example, a private bank official told us that considerable private sector interest in Jamaica occurred immediately after Seaga was elected, but that this interest has tapered off. Some of his bank's customers who considered investment projects have backed out before implementation. He described the private sector as now adopting a "wait-and-see" attitude.

Besides external factors, business people and AID officials we interviewed cited the following reasons why private sector activity had not grown faster.

Private sector lacks confidence: Some business people expressed doubts that Jamaica's Government would implement policies and programs to support the private sector. AID also believed that the Seaga Government has been slow to move from rhetoric to action. Foremost among private sector and AID concern was that the Government was slow to implement an export incentive program and actions to make foreign exchange more readily available to productive enterprises.

Complex government bureaucracy: According to AID, the complexity of the Jamaican public sector is a source of bureaucratic confusion that discourages potential investment. For example, public sector responsibilities for industrial policies, services, incentives, factory space, financial assistance and management of publicly owned manufacturing companies are shared by 13 institutions.

Infrastructure problems: Frequent power outages and water shutoffs occurred during our visit. According to representatives of the private sector, existing infrastructure was generally adequate but maintenance was poor. AID said that government should increase attention to infrastructure maintenance and improvements because infrastructure is essential for industrial expansion, and if permitted to deteriorate, could discourage potential investments.

Other constraints: Private sector and AID officials, as well as AID studies, cited numerous other constraints including the shortage of skilled workers, the conservative practices and short-term horizons of Jamaican businessmen, inefficiencies in the manufacturing sector which make some products non-competitive on the world market, and problems with Jamaican labor unions.

LINKING ASSISTANCE TO JAMAICAN POLICY REFORMS

According to AID mission officials the Government of Jamaica has tended to request donor assistance as a solution to its economic problems instead of pursuing policy reforms to remove constraints to economic growth. Balance-of-payments support can be a useful development tool to influence Jamaican policy reforms if AID requires the Jamaican Government to take specific actions prior and/or subsequent to the provision of assistance. Based on our analysis of past ESF and P.L. 480 assistance to Jamaica, however, AID has not achieved substantial influence over Jamaica's economic policies.

Efforts to influence Jamaican policies

Recognizing the need for policy reform, AID intended to use assistance to influence Government of Jamaica policies. Because other institutions--the International Monetary Fund and World Bank--were requiring that the Government of Jamaica meet fiscal conditions and implement sound economic policies, AID linked its assistance to Jamaica's compliance with requirements of these institutions.

AID's provision of ESF assistance in early 1981 required the Government of Jamaica to outline an economic recovery plan acceptable to the International Monetary Fund. Providing ESF assistance in late 1981, AID required that the government (1) satisfy fiscal conditions to qualify for assistance from the fund and the World Bank, and to begin studying constraints to trade and investment. AID had identified additional policies needing reform, but did not require these reforms in exchange for assistance provided. The P.L. 480 agreements in 1981 and

1982 required that Jamaica take general self-help measures and plan to reform agricultural policies. However, like the ESF assistance, the P.L. 480 agreements did not require implementation of reforms prior to receipt of assistance.

Because Jamaica's immediate need for balance-of-payments support was critical following the Seaga election, AID chose not to delay providing assistance by requiring policy reforms as a precondition. However, in May 1981, AID officials reported to us that future ESF support would be provided only if the Jamaican Government fulfilled increasingly strict conditions. Planning documents also suggest that AID intended to increase requirements. For example, a January 1982 planning document stated that:

"ESF loans will be linked increasingly to more detailed action by the Government of Jamaica on policy and institutional changes deemed necessary by AID and other donors to revive Jamaica's economy * * *."

Our analysis shows that AID has had difficulty implementing its plan. For example, an ESF assistance agreement, signed in late September 1982, contained conditions considerably weaker than originally proposed. Mission officials told us they had planned to require that prior to receiving assistance, the Government of Jamaica prepare a plan to merge two agencies involved in investment promotion. They also proposed that the Government of Jamaica complete within 1 month a study of trade and exchange controls with proposals for remedial measures, and a plan to revise the tax system to provide private investment incentives, eliminate inequities, reduce tax avoidance, and broaden the tax base. But after consultation with agency headquarters, the AID mission decided to require that the Government perform the studies on merging the investment promotion agencies and on trade and exchange controls in 6 months rather than 1 month. Three months after the studies were to start, AID officials were uncertain as to their status. Furthermore, the proposed tax reforms were not required.

On December 17, 1982, AID signed an agreement with the Government of Jamaica to provide Jamaica an additional \$25 million in balance-of-payments support. Like previous ESF assistance, the Jamaican Government was required to provide evidence that they were in substantial compliance with the International Monetary Fund and World Bank agreements prior to disbursement of AID funds. The ESF agreement also required the Government of Jamaica to reach substantive agreement with the World Bank and the International Monetary Fund on export incentives which, among other things, would in effect begin to allocate foreign exchange according to market forces. AID considered requiring additional reforms, but since the export incentives represented a major Jamaican policy change decided no additional reform should be required. AID officials said that by tying assistance

to the mandated export incentives, they were able to jointly influence a major shift in Jamaican policy.

Reasons why few reforms have been required

AID officials told us that uncertainty about which policy reforms to require, and the desire to not delay the provision of assistance, account for the limited influence achieved over Jamaican policies. One official explained that in 1981 and 1982 AID knew too little about the Jamaican economy to accurately assess the precise impact of proposed reforms. In addition, requiring policy reforms prior to disbursement could delay the provision of assistance, thereby defeating the objectives of providing quick disbursing assistance needed for economic recovery. For example, mission officials said that ESF assistance was provided in September 1982 without preconditions because the Government of Jamaica had advised AID that they faced critical foreign exchange shortages, and needed the balance-of-payments support immediately to avoid economic chaos. In this case, the mission Director said that AID did not have sufficient time to negotiate possible policy reforms with the government of Jamaica.

According to AID mission officials, the United States has not pressed for policy reforms in some instances because Jamaican resistance was strong, and for political reasons the State Department did not want to require the reforms even though they would enhance development. According to mission officials, Government of Jamaica resistance has been particularly strong to policy reforms which would be politically unpopular. For example, the government has resisted reducing the bureaucracy because this would require that some workers be laid off, or that some agencies be reorganized or dismantled. We were informed by AID program officials after completion of our field work that the International Monetary Fund is currently pressing for a reduction in Jamaican Government bureaucracy.

Reducing of the bauxite levy to increase Jamaica's competitiveness in the world market has been resisted because many Jamaicans believe that establishing the bauxite levy was a landmark success of the previous government. According to AID, the Jamaican Government has also been reluctant to devalue Jamaica's currency because of past assurances that this would not occur.

Requiring policy reform in the future

We reviewed several AID studies which cite many Government of Jamaica policy reforms needed to promote the private sector and stimulate overall economic recovery. Some of these proposed reforms would (1) accelerate public sector divestment, (2) improve labor/management relations, (3) improve services of government agencies, (4) create investment incentives, (5) revise tax rates and administration, and most importantly (6) create incentives for exports and better allocate foreign

exchange to productive sectors. Mission officials believe they now have acquired sufficient expertise on the Jamaican economy to determine with relative certainty what reforms are most necessary and what their impact will be. As a result, they plan to require the Government of Jamaica to make specific policy reforms which, although potentially unpopular and politically difficult, are necessary if Jamaica's economy is to recover and grow. We believe that following through with AID's plan is important for it appears that Jamaica is reluctant to initiate reforms needed to stimulate private sector and overall economic growth.

In late March 1983, program officials advised us that AID had recently provided Jamaica an additional cash transfer of \$25 million. In providing this assistance, AID required the Government of Jamaica to perform new studies on proposed policy reforms in the areas of public sector divestment, consolidation of government-promoting agencies, and agricultural export marketing which will lead to implementation. AID has also designed a project to begin in the summer of 1983 to provide technical assistance in the area of tax policy and administration.

JAMAICA'S USE OF FOREIGN EXCHANGE ASSISTANCE

The primary purpose of the ESF program for Jamaica is to provide foreign exchange necessary to purchase needed imports. We found that AID's procedures to monitor Jamaican use of foreign exchange provided by the United States have been ineffective. Once the exchange is provided, our analysis shows that AID has little control over how it is used, and has no assurance that foreign exchange provided results in additional imports of U.S. equipment and materials needed to stimulate private sector and overall economic growth.

Measuring impact of foreign exchange difficult

ESF assistance agreements have required Jamaica to import, within specific periods of time, goods and services from the United States at least equal to the assistance provided. Fiscal years, 1981 and 1982 agreements required that foreign exchange proceeds be used to import non-specified U.S. goods and services excluding military or non-food consumer goods. The agreement, signed in December 1982, required that foreign exchange assistance be made available to the private sector. Although AID has minimal requirements on how foreign exchange assistance was to be used, AID advised the Congress that its foreign exchange assistance was being used to import critical raw materials and capital goods needed to stimulate production. AID mission officials told us they do not attempt to control how the Jamaican Government actually allocates foreign exchange provided through ESF. Once U.S. funds are transferred to the Bank of Jamaica, import priorities are established through Jamaica's complex

import licensing system. Because allocation of the exchange is the responsibility of the Government of Jamaica, AID has little assurance that when the additional foreign exchange becomes available it is used for U.S. equipment and materials required to stimulate production.

We also found that AID's monitoring process provides little information on how foreign exchange assistance was used. AID has attempted to monitor use of foreign exchange assistance by requiring that the Government of Jamaica submit a list of imports purchased with AID funds. AID auditors reviewed the mission's monitoring process in April 1982 and found that (1) the Government of Jamaica has not been submitting reports on a timely basis, (2) documentation for imports was inadequate, and (3) reports were not reviewed by AID for ineligible imports. We updated AID's audit by reviewing subsequent Government of Jamaica reports and found that deficiencies still existed. The reports showed that Jamaica had purchased ineligible non-food consumer items such as cosmetics, liquor, tennis rackets, camera film, diapers, and hair products with AID-provided foreign exchange. In addition, the reports were still submitted late and were still not being reviewed.

AID officials told us that because of difficulties in proving which funds were used to purchase selected imports it was unnecessary to require Jamaica to provide the import reports. They believe that the reports placed an undue administrative burden on the Jamaican Government and that even if AID identified ineligible imports, the Government of Jamaica would simply claim that other eligible imports were in fact purchased with AID funds. For these reasons AID deleted the reporting requirement in the September 1982 and December 1982 agreements. Instead AID will require that the Government of Jamaica simply verify the accuracy of U.S. Department of Commerce trade data to document that Jamaican imports of eligible items exceed the value of foreign exchange provided by AID. While this procedure will streamline the reporting process, it will not provide information to show if AID assistance had resulted in additional productive U.S. imports which was a purpose of the assistance.

Because AID could not tell us how AID foreign exchange assistance had been used, we analyzed U.S. Department of Commerce data on Jamaican imports from the United States. According to this data, total Jamaican imports from the United States increased from about \$302 million in 1980 to \$468 million in 1981. However, even though AID provided increased foreign exchange to Jamaica in 1982, imports from the United States decreased slightly from \$468 million in 1981 to \$460 million in 1982. We noted that imports of selected productive products, such as alloy steel plates, had increased progressively from 1980 to 1982. However, imports of consumer items, such as sport fishing tackle and jewelry, also increased from 1980 to 1981 and from 1981 and 1982.

Alternative monitoring procedures can
enhance AID influence over Jamaican imports

An alternate procedure could allow AID to monitor Jamaican use of foreign exchange assistance and encourage Jamaica to increase productive imports from the United States. Using Commerce data, the value of Jamaican imports from the United States subsequent to disbursement of AID funds, could be compared with earlier periods to determine if an increase occurred at least equivalent to the assistance provided. Since the data show imports by category, such a review could also determine if increases occurred in those categories that most directly affect Jamaica's productive sectors. We recognize that increases in total imports or in specific import categories may be due to influences other than U.S. balance-of-payments support. For example, if sales of Jamaican bauxite increased, more foreign exchange would be available and an increase in imports would be expected. We believe, however, that if AID mission staff monitor the import data and take account of extraneous factors, the data could provide a measure of Jamaica's use of foreign exchange assistance. With such a measure available, AID could better influence Jamaica to increase its imports from the United States or to alter its import priorities as a condition to future assistance.

MAXIMIZING IMPACT OF LOCAL CURRENCY

Substantial amounts of local currency are generated through the P.L. 480 and ESF programs to support development efforts. For example, over \$100 million was generated in local currency as a result of AID fiscal year 1982 programs. We believe maximum development benefits from local currency may not be achieved, however, because

- the Government of Jamaica has been slow to meet local currency provisions of assistance agreements and
- AID has not played an active role in selecting or monitoring development projects financed by local currency.

Local currency intended to
fund development activities

ESF agreements have required the Government of Jamaica to allocate an equivalent amount of Jamaican dollars for selected development activities. ESF assistance in January 1981 generated \$40 million in local currency and was allocated within Jamaica's 1981/82 budget for (1) AID projects, (2) other donors' projects, and (3) Jamaican programs for agriculture, health, education, housing and energy. ESF assistance in December 1981 generated another \$38 million in local currency to be allocated for development purposes mutually agreed upon by AID and

Jamaica. The sale of agricultural commodities purchased by Jamaica under the fiscal year 1981 and 1982 P.L. 480 programs also generated about \$35 million in local currency. This currency was to be used to improve Jamaica's production, storage and distribution of agricultural commodities.

ESF assistance in September 1982 made available through a supplemental appropriation generated \$50 million in local currency. Like previous assistance, AID required that the local currency be used to finance mutually agreed upon development projects. Pursuant to congressional intent, these projects were to emphasize to the extent possible the needs of the poor majority.

Delay in meeting terms of agreements

In the December 1981 and September 1982 ESF agreements, AID required the Government of Jamaica to deposit local currency in a special account at the Bank of Jamaica upon disbursement of AID funds. AID also required that the Jamaican Government furnish quarterly reports on the use of local currency. Although funds were disbursed January 11, 1982 and September 28, 1982, AID had not obtained evidence that special accounts were created by the time of our fieldwork in October 1982. Quarterly reports had also not been received. Like the ESF program, the fiscal year 1982 P.L. 480 agreement required the Government of Jamaica to establish a special account for local currency proceeds, but as of October 1982 AID lacked evidence that the account had been established. AID officials explained that the Government of Jamaica has ruled that creating a special account was against Jamaican law. AID officials also said that the Jamaican Government lacked the manpower to prepare quarterly reports but they would probably submit project progress data on an annual basis.

AID auditors recommended that AID obtain confirmed bank statements showing that the Jamaican Government established special bank accounts and made proper deposits. Regarding the status reports, the auditors recommended that AID establish procedures to ensure the required reports are submitted by the Jamaican Government in a timely manner and reviewed by the mission as part of their monitoring responsibilities. The auditors concluded that AID needed to ensure Government of Jamaica compliance with the terms of agreements, otherwise the programming and disbursement of local currency may not be timely and the desired impact may be delayed. In December 1982, mission officials told us that legal difficulties with creating special local currency accounts had been resolved and that the local currency had been deposited. Further, the mission told us they planned to improve their internal procedures to ensure that the Government of Jamaica promptly reported how local currencies are used and that the Jamaican reports are reviewed by AID staff.

Use of local currency controlled
largely by the Government of Jamaica

In order to determine what development impact recent local currency projects had achieved, we wanted to visit selected projects during our fieldwork which had received local currency generated from ESF assistance provided in December 1981 and September 1982. However, for ESF assistance provided in December 1981, AID had only reached agreement on local currency allocations in late August 1982 and doubted if any of these monies had resulted in project progress at the time of our fieldwork. Further, because local currency accounts had not been established, we could not determine if any of the local currencies had been disbursed. For additional ESF assistance provided in September 1982 AID had not reached agreement on allocation of local currency generations as of December 1982.

Because we could not determine if Jamaica had disbursed local currency from the December 1981 assistance at the time of our fieldwork, we reviewed a list of projects which were to be financed by the local currency proceeds which had been proposed by the Government of Jamaica and approved by AID in August 1982. The list included projects to support a national library and provide general hospital improvements. While AID officials believe these projects will provide development benefits, we believe there may be higher priority projects consistent with Jamaica's overall development needs and AID development strategy. In arriving at this list, AID mission officials told us that the Jamaican Government had selected about 90 percent of the development projects to be financed by local currency and that AID selected only about 10 percent.

By playing a more active role in identifying and selecting appropriate development projects to be financed by local currency AID could, in our opinion, better achieve its development goals for Jamaica, and ensure that the currency is directed at worthwhile projects. To do this, AID should first make the efforts to identify Jamaican development needs which could be met with local currency expenditures. Once this is done, AID could design local currency development projects or propose allocation of more local currency to priority development purposes that AID believes need more Government of Jamaica attention.

Local currency projects not monitored

Although AID plans increased attention to Government of Jamaica compliance with local currency reporting requirements, AID does not plan on-site inspections to verify the reports received to determine if projects funded with local currency are implemented smoothly. Without on-site inspections, there would, in our opinion, be no assurance that the projects are achieving their intended goals or, in fact, that they are even underway. Because AID's program generates substantial amounts of local

currency with significant potential for influencing Jamaica's overall development efforts, we believe that making such on-site inspections is warranted. If on-site inspections are made on a spot basis, this additional responsibility need not prove burdensome.